

Market Leader

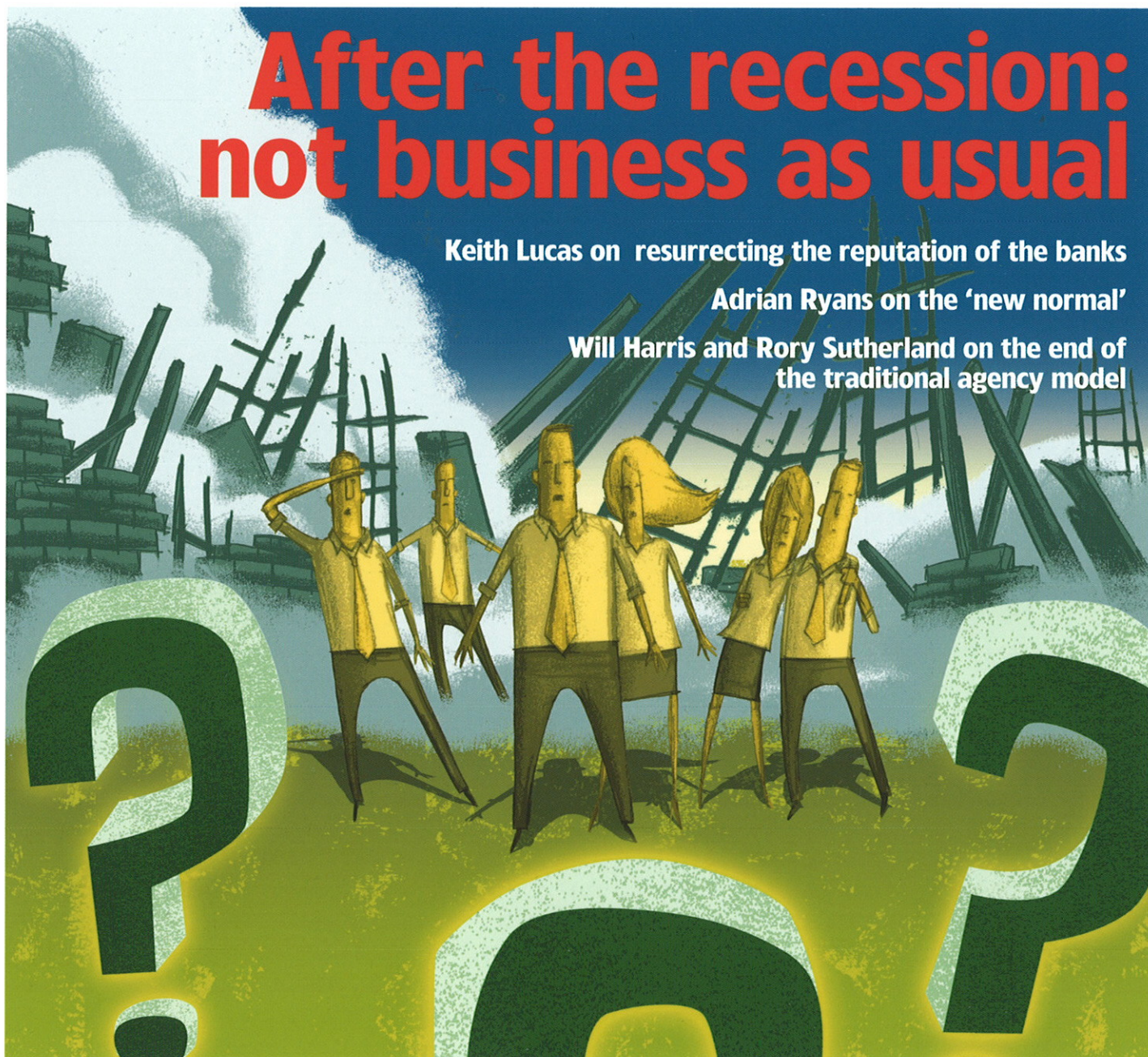
NEW THINKING, DIFFERENT PERSPECTIVES

After the recession: not business as usual

Keith Lucas on resurrecting the reputation of the banks

Adrian Ryans on the 'new normal'

Will Harris and Rory Sutherland on the end of
the traditional agency model



Simon Silvester on why brand **differentiation** means brand strength

Collette Dunkley explains why marketers are missing a trick with **women**

From bags to riches: how **Radley** became a success story



Big AI by any other name

Winston Fletcher

I once launched an advertising agency with the snappy name Delaney Fletcher Delaney Slaymaker Bozell. Naturally this appellation was the result of intense negotiation and compromise. Five egos had to be massaged. Mr Delaney (the first), Mr Fletcher, Mr Delaney (the other one), Mr Slaymaker, and the deceased Mr Bozell, who owned the joint, all insisted on having their monikers on the door.

A few evenings later, I was at a private dinner party with a huge client. 'How on earth', the vast one asked the assembled diners rhetorically, 'can agencies have the f'ing cheek to give clients advice about branding when they are so f'ing lousy at it themselves?' Ignorant – or maybe well aware – of my presence, his bigness continued, 'a new agency has just been launched with the most interminable and instantly forgettable list of names imaginable. So forgettable I've already forgotten them. They went something like Delaney, Delaney, Delaney, Butcher, Filcher and Bustle. Plus maybe another Delaney. Can you credit it? And tomorrow I'll get a letter from the morons offering me the benefit of their marketing wisdom.'

At which point, as *News of the World* investigative journalists used to say, I hurriedly made my excuses and left.

In those days, advertising agency names were standing jokes. Any comedian could provoke gales of laughter by simply burbling Snatchi & Snatchi, or by bastardising the saintly Bartle Bogle Hegarty. Mind you, I never heard anybody bastardise Tragos, Bonnange, Weisendanger and Arjoldi. Nobody dared. With a name like that they were impregnable.

Personally, I never found these name games that funny. (If you grow up in a North London slum encumbered with the name Winston, you get easily bored with nomenclature jokes.)

But anyway, I did not find them that funny because it has always seemed to me perfectly sensible for agencies to be called after their founders. Agencies are personal service businesses, and it is downright sensible of clients to want to know who the founders of the agency are, or were. The founders determine the ethos – the philosophy – of the agency. And the best way to identify them is by their names. Or are there better ways?

But all this is manifestly old hat. Today's creative hot shops have zippy monikers like Glue, Eardrum, Quiet Storm, Dig for Fire, Karmarama and Big AI's – not to mention Nitro, Mother and The Red Brick Road. Doubtless the humungous one would have considered these far finer agency names than the boring, lawyer-like lists of yesteryear. Though if my unreliable memory serves me right, he eventually appointed Still, Price, Court, Twivy and De Souza.

WHY SONY MISSED THE IPOD

A vivid example of the silo problem, the failure of autonomous product and functional silos to cooperate, comes from Sony's incredible miss of the iPod market, as recounted in the new Wiley book *Sony vs Samsung*, by Sea-Jin Chang.

The iPod was a natural for Sony. It was theirs to lose. The company has long been the leader in portable music, from the Walkman, to portable CD players, to the mini-disc. And unlike Apple, Sony had a big presence in music. More generally, Sony has been the miniaturisation company ever since the transistor radios of the 50s, and no firm has been better at creating new categories than Sony.

At the huge Las Vegas Comdex trade show in the fall of 1999, Sony introduced two digital music players, two years before Apple brought the iPod to the market. One, developed by the Sony Personal Audio Company, was the Memory Stick Walkman, which enabled users to store music files in Sony's memory stick, a device that resembled a large pack of gum. The other, developed by the VAIO Company, was the VAIO Music Clip, which also stored music in memory and resembled a stubby fountain pen.

Both were flawed but provided the basis for a new product category. Each had 64 megabytes of memory, which stored only 20 or so songs, and were priced too high for the general market. Both also featured a Sony proprietary compression scheme called ATRAC3. Software to convert MP3 files to the Sony standard was not convenient and, worse, resulted in slow transfers. The fact that Sony promoted two different devices created by two fiercely independent silos, confused the market as well as the Sony organisation.

Another silo was also involved, Sony Music. A handicap instead of an advantage, Sony Music was concerned more with its ability to avoid piracy and freeloading than with the success of the new digital product. As a result, it inhibited the product's ability to provide access to a broad array of music and led to the use of the cumbersome uploading process, which turned out to be a burden.

Sony's three silos thwarted the efforts by Sony to create a new category and pre-empt Apple's iPod, which is soon to sell its 200 millionth unit. It is likely that a product that combined the energies, resources and customer insights of the three silos and was improved over time would have been successful, and that the iPod opening would not have materialised.

Sony has begun the process of changing the silo culture so that cooperation and communication replace competition and isolation, so that it can return to its innovation heritage, avoid other iPod-like misses and liberate synergy potential.

Source: David Aaker, author of *Spanning Silos: The New CMO Imperative* (Harvard Business School Press, 2008).



FAST STRATEGY: TOP TIPS

- 'Be predatory. Advertising is a zero-sum game. Nothing is going to be magically created from thin air. Whatever you want, you've got to take it from someone else. How do you take unfair advantage of your competition? Think creatively about who's got what you want and how to take it.'
Dave Trott, Chick, Smith Trott
- 'Strong brands – particularly challengers – have a strong point of view about the world. Work out first what your brand stands against, what it rejects, to help define what it stands for. Then consider whether you need to be a brand of "proposition" or "opposition" to break through.'
Adam Morgan, *Eating the Big Fish*
- 'Think of parallel problems in other markets; this can lead you to a new way of thinking about your problem – and a new way of thinking about the potential answer.'
Sarah Clark, CHI and Partners

HITTING THE JACKPOT



Sir: I have been trying to imagine how big the \$1 trillion deal (£681 billion) to support world economies is in terms of money us non-bankers can understand. A typical lottery jackpot win is about £3m, so how many weeks would you have to win the lottery to win \$1 trillion? The answer is that if you started winning every week from the time Julius Caesar invaded Britain in 55BC, you would just about be halfway. To win \$1 trillion you would have had to start winning every week from when Stonehenge was built at the end of the Neolithic age, about 4,000 years ago.

Source: Letter in *The Week*, April 2009

THE TRIVIA FILE

- More British households have two cars (27%) than have one car (23%)

- 60.6% of Twitter's 10 million worldwide users are aged 35 or older compared to 52.4% of Facebook users
The Times (April 2009)
- More than half of Britons think the countryside is 'boring'. One in ten adults are unable to identify a sheep and 83% do not recognise a bluebell
Farmers Guardian (March 2009)
- In the James Bond movies, a third of the women who sleep with Bond end up dead. Daniel Craig is the most dangerous 007 to sleep with; all of his lovers so far have died.
Daily Telegraph (March 2009) Source:

Source: *Prospect*, May 2009



WIKI PEDIA HAS CONQUERED

The English version of Wikipedia contains 2,822,233 articles. The linguistic diversity is phenomenal: 875,000 articles in German, 774,000 articles in French, 586,000 in Chinese, 5785,000 in Polish – to name a few. There is no way a conventionally edited, commercially financed operation could match this.

Source: John Naughton, *Observer*, April 2009

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'I'm sorry – you've lost me': five words a brand should never have to hear

Jeremy Bullmore

The year 2008 may be remembered as the one when numbers finally lost their capacity to shock. At the beginning of the year, two billion dollars was a lot of money. By the end of it, two trillion dollars was rather less: or so it seemed. Logically, the fact of a corporation facing losses of 100 billion should be four times more chilling than one facing losses of 25 billion – but logic doesn't come into it. There comes a moment when numbers so distance themselves from personal experience that comprehension snaps. And when comprehension goes, so, more worryingly, does any sense of personal involvement. Unimaginable vastness is so remote from anything we've ever seen or touched that it simply doesn't connect. It's like being told that Planet Earth is just one of several million other planets out there. I'm sorry – you've lost me. If we were told that we were one of just five, that would be a different matter altogether. As it is, we shrug – and think of something else.

Children may get their heads round money by relating it to their pocket money or to the price of a candy bar. Their parents may try to keep one foot on the ground by mentally relating money to salaries or house prices. But two trillion? How many houses could you buy for two trillion? How much R&D could you finance?

I'm sorry – you've lost me

As governments around the world finally and grudgingly acknowledged the existence of recession – and in most cases many months earlier – companies everywhere began ransacking their records, their lofts and their memories: what were the secrets of weathering recessions – even of coming out of them with greater strength? There are more than 150 published papers on the subject, spanning more than 70 years.

Most analyses agree. Tough times make people think more. When people think more, they re-assess their behaviour. Those companies who've confused customer habit with customer loyalty quickly discover that they're not the same. Price: value relationships slither about a bit: price, which is both objective and quantifiable, becomes a lot easier to hang on to than something called value, which is neither. Unless underpinned by intrinsic quality, 'added value' begins to seem little more than fancy packaging.

In times of recession, the kaleidoscope is given a mighty shake.

The point of all this, and demonstrated over those last 70 years, is that the most successful recession marketers are those astute enough and nimble enough to find new patterns amid the confusion and seize the new chances. Every brand's new chances will be slightly different and all gains made will be at someone else's expense.

But probably the biggest single risk facing recession marketers is exactly the same as the biggest single risk that faces successful companies at all times – but with a frighteningly higher level of intensity: and that's the risk of losing touch with their ultimate users. Success brings growth; greater size demands delegation and the introduction of departments; and real people stop being real people and become demographics. It needn't happen but it does. Brands – and the companies behind those brands – slowly and imperceptibly come to seem as remote from reality as trillions of dollars do. And the ultimate consumer response is exactly the same: I'm sorry – you've lost me.

As many of those published papers demonstrate, it's easier to lose users in times of recession than at any other time. Tough times make people think more. When people think more, they reassess their behaviour. And if their brands have drifted away from them into some de-personalised stratosphere, it's now that they'll notice – and do something about it.

Suddenly, they're lost; and as everyone has always known, to retrieve a lost user takes a great deal of time and a great deal of money.

A RAY OF HOPE

However, there's some surprisingly good news. Despite the continuing growth of marketing companies and their brands, it's more possible now for them to keep in sensitive touch with their ultimate users – and to close any gaps that may have developed – than during any previous recession. Not simpler, certainly, and no cheaper; just more possible.

Two great interlocking things have happened to marketing communications since the last recession of this scale. We seem to have developed a rather deeper understanding of how the most persuasive marketing communications work. And there are now many more ways to engage with any given audience.

To simplify, perhaps unfairly: there was a time when mass communication was thought to be something of a monologue. Transmitters transmitted and receivers received. The ability to transmit was limited to those in the possession of relatively few transmission facilities: just media owners – and advertisers who could afford to rent those facilities. The receiving public, that overwhelming majority, had little choice but to receive – and remain silent.

Unfortunately, their enforced silence was interpreted by many as passivity. A style of mass commercial communication developed that was often didactic, at times almost hectoring. Claims of product superiority were repeatedly asserted and consumers were instructed to

consume.

Defenders of this style point to its effectiveness. Sales went up, they rightly say. Of course they did. Paid-for brand publicity has always contributed to brand fame. And brand fame has a simple competitive value.

But what this style of communication never managed to achieve, and never will, is that willing complicity between sender and receiver that's the mark of all the most effective persuasion. In the words of Arthur Koestler, 'The artist rules his subjects by turning them into accomplices.'

Receivers have never been passive. No receiving brain accepts claims and assertions without challenge. Every receiving brain filters such messages through its own experience and its own prejudices – and reaches its own conclusions.

And just as this long overdue insight (always intuitively understood by the best natural communicators) became more generally understood and legitimised, along came the internet. And suddenly, hallelujah, it wasn't just media owners and advertisers who had access to transmission facilities. Anyone with a computer and internet access was now a potential publisher. And publish they did, in their millions – and so they will for ever more.

The myth of the passive obedient consumer, however attractive to a certain kind of marketing mind, has been blown for good. And in its place is an infinitely more complicated but altogether healthier state of affairs. For companies deeply concerned not to lose touch with their users – wherever they may be and however disparate – things have never looked better. Through one set of lenses, the fragmentation of media is an advertiser's nightmare; and so is the ability of lowly consumers to answer back. Through another set of lenses, both developments offer an amazing new potential. After a century during which corporations got bigger and bigger, more and more global, and almost inevitably more and more remote from their ultimate users, the trend has begun to turn.

The pattern is far from fixed and even the vocabulary seems still to be in the development stage. We'll probably look back on this time and realise that 'old' media and 'new' media had more in common than we realised, and that 'digital' was a curious word to have emerged as the name for a form of mass communication that gets closer to conversation than anything before it. And we'll maybe even come to see that interactive media, with their ability to involve real people with real things and real ideas, have much in common with those most primitive of communications devices: demonstrations. Whether in market squares or jungle clearings, showing, involving, achieving participation and responding to feedback remain as powerful a way of keeping in touch with those all-important people out there as they ever have.

It won't be tidy. But there really shouldn't be any excuses, during recessionary times or not, for brands to lose their followers through becoming too remote.

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Advice to brand managers: loosen up

[Martin Thomas](#)

Brand marketers would be forgiven for thinking that the world is out of control. Public scrutiny of brand behaviour is at an all-time high; protest movements are able to spread at startling speed; employees use Facebook to criticise their own customers; spoof versions of advertising campaigns are posted on YouTube; the opinions of complete strangers on product sites are trusted far more than official brand communication.

We only have to cast our minds back to the turn of the millennium and the launch of Naomi Klein's *No Logo* to see how things have changed in such a relatively short period of time. This manifesto of the anti-globalisation movement depicted a world in which consumer freedoms were under attack and in which brands were too powerful, too controlling. It is an image of the world that, in hindsight, seems almost charming in its naivety. Far from being too powerful, the 21st century has seen a weakening of the power and influence of brand owners in the face of a rising tide of consumer activism and empowerment.

NEW CONSUMERS – OLD PROCESSES

Much has been written about the concept of consumer empowerment. Its causes and implications have been debated in boardrooms, marketing departments and political campaign offices. For some commentators it represents the dawning of a new age, a revolution in the way that companies and other institutions communicate and collaborate with their stakeholders. Even if you discount the hyperbole, most companies accept that consumer empowerment has major implications for the way that they communicate and work with customers, employees and other key stakeholders.

However, when you analyse how the vast majority of companies manage their brands, it would appear that nothing has changed. Most of the processes and methodologies they use to develop a brand's identity and positioning, or plan brand communication, remain predicated on the notion of absolute control. They are underpinned by the naive belief that a brand can, and should, be protected from any outside interference, and that a brand's communication will be treated by consumers with reverence and respect. Too many marketers are in danger of what Marshall McLuhan described as 'trying to do today's job with yesterday's tools and yesterday's concepts'.

Current brand management theory and practice runs counter to what is actually happening in the wider world. Consumers have been emboldened and enthused by a new spirit of self-expression and collective action. They want to have a greater say in the look and behaviour of companies and brands. Why else would they spend time creating their own versions of brand advertising, customising brand logos, following brands on social media sites, or volunteering their ideas and opinions for new products and marketing initiatives?

If you want a simple dramatisation of the new reality, try typing McDonald's or MasterCard into Google Image and see what you get, although be warned, many of the images that appear towards the top of the rankings are not very pleasant. Two of the world's largest corporations – employing an army of design specialists and intellectual property lawyers – appear helpless in the face of consumer creativity.

Similarly, try a standard Google Search of any multinational corporation and you will find that a significant proportion of the highest-ranking sites have been created by activists, protesting about the company's activities. Researcher company, Forrester, undertook a simple Google Search on the world's 20 largest brands. This revealed that fewer than 20% of search results are linked to the companies themselves. The implications are compelling: the vast majority of the information about a brand's products and services online is not directly controlled by the owners or managers of the brand. It is a thought that terrifies many marketers who have spent years deluding themselves that they are the ones in control.

NEXT-GENERATION THINKING

Fortunately, a new generation of marketing professionals has started to work out a way of dealing with consumer empowerment. In our recent book we coined the term 'crowd surfers' to describe them. They include people such as Procter & Gamble's former Chairman of the Board and Chief Executive Officer, A.G. Lafley, who describes how we 'are operating in what is very much a "let go" world'. This is a view shared by Fallon's Robert Senior, one of the people behind the Cadbury's drumming gorilla and dancing eyebrows, who argues that 'the more you try to control it [the creative idea], the less you get back from it'.

Crowd surfers have a much looser, more flexible philosophy of brand management that celebrates the virtues of collaboration, dialogue and even criticism. Google 'Orange broadband' and pretty high up the rankings you will find the forum orangeproblems.co.uk. Rather than seeing this as a potential threat, Orange brand director Justin Billingsley believes that: 'We should realise this is a privilege. We can see what the problems are and if we solve them, thousands of people know about it.'

To use the vernacular of the software industry, crowd surfers 'live life in beta'. Alex Marks at Microsoft Advertising is clearly a devotee of this way of thinking. He talks about the importance of 'allowing your work to get "messed up"'. Clay Shirky, author of *Here Comes Everyone*, is another proponent of a less rigid or polished view of brand management. He suggests that if something looks too perfect, such as the latest multimillion-pound advertising campaign, consumers won't touch it, as 'it leaves no space for me'. People don't want the glossy image of the company that appears in the brochure, they prefer to deal with something a bit ragged around the edges that they can adapt themselves.

CROWD SURFING

Crowd surfing does not mean abdicating all control over the management of a brand, which is the view of some of the more evangelical proponents of open source thinking. But it does mean that the planning of brand identities, positioning and communication needs to be done with consumer empowerment in mind. Even the IPA recommended in a recent report that 'brands must appear more humble'. Rather than worrying about protecting the image and integrity of a brand at all costs, brand owners need to adopt a more relaxed perspective and ask themselves a few simple questions. How malleable is my brand identity? To what extent am I encouraging participation and helping people use my brand as a vehicle for their own self-expression? Do I truly believe in open dialogue, even with my critics?

New patterns of consumer behaviour and new attitudes, brought about by a sense of empowerment, have created a new set of challenges for today's marketing and communications professionals, for which their training and experience have left them largely unprepared. We cling to the illusion of control, when, ironically, the best way to succeed is to relinquish absolute control. The consumer empowerment evangelists have long argued that brand managers may own trademarks, but ultimately the ownership of a brand resides with those consumers who talk about it, blog about it, attend its events, join social networks devoted to it, share and customise its creative messages. It is about time that this became reflected in the way that brands are managed. In the words of mental health pioneer, Dr Jon Kabat-Zinn, 'You can't stop the waves but you can learn how to surf.'

ENDNOTE

* Thomas, M. and Brain, D. (2008) *Crowd Surfing: Surviving and Thriving in the Age of Consumer Empowerment*. A&C Black Publishers Ltd.

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After the recession: resurrecting the reputations of the banks

[Keith Lucas](#)

If your car let you down catastrophically and then cost a fortune to fix, you probably wouldn't hesitate to switch brands and warn your friends against buying one. Yet although your bank is a considerably more important purchase decision and there is a good chance that it has let you down catastrophically and expensively in recent months, odds are you are still with the same brand that you have been with for years. It seems that choosing a bank is one of those 'necessary evil' categories that we only really think about when we open our first account, then we breathe a sigh of relief and let the inertia build. Before we know it, we have committed a lifetime to the same brand, perhaps the only product category in which we are prepared to behave with such apparent indifference. But times are changing.

WHERE LOYALTY LIES

Blind loyalty to the bank brands belongs in an era when they, like the church, the government and the BBC, were the respected, unchallenged pillars of the establishment. The other pillars have already been eroded; now it is the turn of the banks. Inertia is no substitute for loyalty, and the recent spectacle of seeing the big banks caught with their financial trousers down has been a rude awakening for many customers whose expectations have been redefined. It is not simply the financial bubble that has burst, but the status and respect that the banks had been taking for granted for far too long.

Remember the days when renewing your annual car or home insurance simply meant sending a cheque when the renewal notice came? That was before the power of marketing broke through to create customer-oriented brands like Direct Line, Privilege and More Than. It revolutionised the sector and today we are so spoilt for choice that new brands like Go Compare and Confused have emerged to help us make our decision.

Similarly, the only credit cards in your wallet used to be the standard-issue Visa or Access cards provided by your bank (and, perhaps, an American Express card if you were well-off) while, today, you are likely to have a wallet brimming with lifestyle-defining card brands, from the curiously alluring (Cahoot, Egg, Mint, etc.) to the trusted and familiar (Sky, M&S, Amazon, etc.).

Meanwhile, the same handful of undifferentiated bank brands continues to offer essentially the same financial products, with the same lack of customer focus and in the same perfunctory manner, that they have for decades. While the music and animation of their TV commercial may be entertaining, does anyone seriously believe that Lloyds bank offers any distinct benefits on 'the journey'? Perhaps even more hollow is NatWest's claim to offer us 'another way' when it was its parent, RBS, whose financial waywardness was described by the BBC's business editor, Robert Peston, as "spectacularly stupid and foolish."

The fact is that the traditional banking brands have been fooling themselves for years that they have become customer-focused. Yet, while their marketing departments have been allowed to fiddle with the image, behind their glossy new facades the same old financial minders have been calling the shots and failing to deliver against the marketing promises: the classic 'lipstick on a gorilla' syndrome.

Customers have become so dissatisfied that the banks have been forced to accept a new FSA watchdog to replace former voluntary codes, and will now face fines for poor treatment of their customers. What is more, the new rules will include measures to make it much easier for customers to switch their accounts between banks, opening the way for new brands to enter the marketplace and provide the kind of consumer choices that we have seen emerging in the other financial sectors mentioned earlier.

NEW COMPETITION

But from where will these new competitors come? First of all, we may have become used to overestimating the difficulty of setting up and running a bank. The barriers to entry would appear to have become temptingly low and, given sufficient capital, it would now appear to be an appealingly open market. Given the current negativity and lack of trust in the traditional banks, perhaps the most obvious opportunity is for those brands with high levels of consumer confidence to extend their offer into the banking sector.

The first wave of brands are, after all, already there. Marks & Spencer, John Lewis and Sainsbury's have all been leveraging their customer relationships to provide targeted financial services that they know are in tune with their customers. They also have the customer empathy and marketing sophistication to anticipate and respond to their needs in a way no bank ever could. Virgin has also capitalised on its brand appeal to offer financial services and this is, of course, just the beginning.

What is to stop a lifestyle brand like, for example, Apple from doing banking? If you were one of the brand's many devoted customers and Apple did banking, would you not love to open an account? If you are familiar with the brand's values you can probably already imagine a bank with a straightforward 'can do' attitude, a freedom from bureaucracy and form filling, your account access integrated into your iPhone's mail program and calendar, and the cool white space in the Apple Bank leading to the 'Financial Genius Bar' where every complex financial question is made refreshingly clear.

You leave with a tactile satin aluminium credit card in your wallet and feel like a million dollars even if you only have £100 left in your account! Truly great, well-focused brands understand and are intimately linked with their customers; they know how to make them smile and have the power to turn even banking into a 'feel good' experience.

The point here is really to implore banking brands to strive to become popular brands rather than for popular brands to diversify into banking. Banks need to be working much harder than ever to project the values that will, in time, generate trust and earn customer advocacy.

That said, there are already a couple of banking brands in the UK that demonstrate how customer focus, and therefore marketing orientation, can add value. Most notable among these is first direct from HSBC. It has always focused exclusively on the particular needs of its relatively affluent, professional customers, and its highly trained staff are, literally, on first-name terms with every single one. The level of loyalty it commands, from the segment least likely to give it, is ample evidence that it is succeeding.

The Co-operative Bank also focuses on delivering a product dedicated to the particular needs of its audience, which, in this case, is motivated by ethical considerations.

CONCLUSION

So, in conclusion, what advice should be recommended for the banking community?

- Keep your customers close. Seek customer intimacy, get to know their needs and motivations, then over-deliver to demonstrate your commitment.
- Keep your competitors closer still. New entrants may well change customer expectations for the whole sector. In the words of the Jeremy Bullmore, 'the tire some thing about competitors, other than their very existence, is that what they do has a significant effect on your own reputation.'
- Don't take anything for granted. There has never been an easier time to break into the market and there has rarely been a market with such an appetite for change.
- Know your values and live them across your operation. Your brand will be defined by the people that deliver it as well as the products and services you are offering.

As the inertia against change evaporates, banks will be forced to earn their customers' loyalty or face losing them to more responsive competitors. Given how long this can take and how far they have fallen, they cannot start too soon!

SOME FUNCTIONAL WAYS TO DIFFERENTIATE A BANK

Banks have adopted digital technology hugely in the last ten years. But they have used it to cut costs, rather than to differentiate themselves. Banks are acutely aware that a face-to-face transaction with a customer can cost them as much as fifty pounds; a postal transaction can cost a few pounds, but a digital or ATM transaction costs them just pence.

And so they have driven their customers out of their branches to the ATMs outside. If a customer does venture into the bank nowadays, the helpful people have been replaced by aggressive loan salesmen. Throughout the world, ATMs and online banking portals offer exactly the same services. And the smart stuff in banking – like putting credit card functionality into mobile phones – are being driven by payment systems like Visa, not by the banks themselves. Differentiation levels at banks have therefore collapsed.

But no bank need remain undifferentiated. A break-the-rules bank like ING Direct, which enters new countries with an online deposit account with a market leading rate of interest, always ends up highly differentiated. Small savings banks like Spain's cajas and Germany's Sparkassen have been growing in differentiation for the past five years – not because they have done anything different, just because they have kept their local branches and customer service while their larger competitors have shut branches and told their customers to 'talk to the machine' outside.

What else could Banks Do?

- Even back in 1980, ATMs allowed you to check your balance, order a cheque book and with draw money. Moore's Law means that, today, computers are a million times faster, smarter and more sophisticated. But ATMs offer nothing more than they did then. ATMs need to move with the times, rebuilding the distinctive relationship that no longer happens in the branch.
- Similarly bank internet portals are no smarter than they were ten years ago. Yes, banks need to keep their security levels up to avoid phishing and other attacks. But they are leaving the development of smart banking portals to outsiders, like mint.com, which looks at your banking transactions, analyses them by type and gives you smart, intuitively helpful commentary on your spending habits.
- Many banks are currently asking their customers to elect not to have paper statements, arguing that it is greener not to, and that it eliminates a source of identity theft. But those banks should be careful. Eliminating the paper statement is one more way banks will lose their relationship with their customer.
- Banks would connect better with their customers if they better understood their customers' motivations and appetite for risk, rather than mailing out applications for loans, credit and mutual funds to them indiscriminately.

Source: Y&R booklet 'Day of the Clones', www.pubs.yr.com/clones.pdf

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Get ready for the 'new normal'

[Adrian Ryans](#)

'Credit crunch', 'downturn', 'recession', 'unemployment' – open a newspaper today and these are the words that leap off the page. When cash is tight, people and companies are only too happy to turn to cheaper alternatives. Firms with a strong brand are somewhat protected, but it is becoming clear that, in many sectors, people and companies are willing to give up well-known brands and premium quality for 'good enough' quality and lower prices. In many industries, low-cost competitors are winning, while their traditional rivals are sailing on very turbulent seas.

Discounters like Aldi and Lidl are rapidly gaining market share in many markets, while their more upmarket counterparts, such as M&S and Waitrose in the UK, are lagging far behind. The same trend can be seen in the airline industry, where Ryanair increased its number of passengers by 7% in the first quarter of 2009 while the three major flag carriers in Europe saw their intra-European passenger counts drop by between 6 and 9%. And the same can be said for almost every industry from B2C to B2B.

WELCOME TO THE 'NEW NORMAL'

Some 'wealthier' customers visiting an Aldi for the first time in their lives are probably a little embarrassed about shopping in a discount store. However, their discomfort is somewhat mitigated when they read in the newspaper that an independent consumer research organisation reported that Aldi's and Netto's mince pies were better than the more expensive ones at upmarket rivals. Now they are 'smart' shoppers, not cheapskates. 'Geiz ist geil' (stingy is cool), as the Germans would say.

Premium brands often forget that price is only part of the value proposition of the discounter. In addition, shopping at Aldi-type stores speeds up and simplifies the whole shopping process – convenient locations and parking, relatively small stores, less choice, no encouragement to hang around, and a much lower tab at the end. Shopper expectations going into an Aldi or Lidl are often low, but these expectations are frequently exceeded. The reverse often happens when shopping at upmarket stores.

These are smart, innovative competitors, who should not be underestimated. Many of the customers that start shopping at the discounters out of necessity will stay when good times return. Some of the market share that is lost to the discounters will be permanent.

Many executives wonder when business will return to normal. It won't. The world is resetting and there will be a 'new normal', where low price competitors will occupy a more prominent position in many markets.

BEWARE OF MINDLESS PRICE SLASHING

Economic downturns can provoke knee-jerk reactions. As demand softens and some customers start defecting to lower-cost rivals, companies may feel pressured to reduce prices. In an attempt to maintain margins, both service and support may also be reduced. If this cycle is repeated two or three times, a company can find itself stuck in the middle – between the premium players who did not indulge in mindless price and service reductions and the truly low-cost rivals. The result is that the company is not meeting the needs of any significant segment of customers.

Judicious cost cutting works only if a company really knows which elements of its product and service package are creating customer value, and which are not. By intelligently cutting back, it can reduce costs while retaining customers.

FIGHT OR FLIGHT?

Traditional companies have three fundamental options for responding to low-cost competition. The first is battling their low-cost rivals head on; the second is trying to escape from them by having better-performing products or services; and the third is trying to build deep, enduring and value-creating relationships with customers so that they are less focused on price.

In the last recession, B2B marketer, Dow Corning, launched Xiameter, an internet-based business unit that offered product-only solutions to customers who were willing to buy in large quantities with relatively long lead times and who did not need technical support. Xiameter was well positioned to deal with the company's low-cost rivals. The other Dow Corning business units continued to offer a more extensive range of silicone products bundled with extensive technical support at premium prices. The Xiameter and Dow Corning business units shared a common manufacturing and IT infrastructure to maximise the synergies.

In many cases, however, the best solution is for the low-cost business to be totally separate from the premium part of the business. Even then, it is very difficult for a successful premium player with a low price business unit, to beat, or even contain, its low-cost rivals. The cultural chasm between the two types of business is too wide.

Apple, with iPod and iTunes, is a good example of a company with an iconic brand that has managed to distance itself from commodity MP3 player competitors by building a highly integrated and easy-to-use solution for customers. Most consumers perceive Apple's products as being demonstrably better than competing offers. In many industries, Apple's success in staying ahead of low-cost competitors is difficult to duplicate. Today, so much of the technology, expertise and even brands in many product categories can be bought or licensed on the open

market. This allows low-cost competitors to rapidly close many of the gaps with the premium brands. Any Chinese mobile phone manufacturer can license the same microprocessor cores from ARM Holdings as Apple does for its iPhone. An example is Techtronic Industries, based in China, which was able to acquire or license iconic power tool brands, such as Milwaukee and AEG, to strengthen its position in western markets.



Apple, with iPod and iTunes, is an iconic brand with a highly integrated and easy-to-use solution for customers

NOW IS A GOOD TIME TO INTRODUCE NEW PRODUCTS AND SERVICES

Every cloud, even the current recession, can have a silver lining. Both Xiameter and the iPod were launched during the last downturn. At such times, it is often cheaper and easier to get the attention of customers because there is less advertising 'noise' and costs are lower. Many competitors are focused internally on reducing headcount and costs. Customers are under a lot of pressure and may be more open than usual to trying a new product, particularly one that promises to cut costs.

In business-to-business markets, customers may have more time to test and try new equipment or new materials. When times are good, production lines are running at capacity and nobody wants to lose sales while integrating a new material or equipment that may take time to reach its potential. In tough times, the lines are idle and the opportunity cost is zero. So, ironically, the worst of times can be the best of times to pull ahead of the competition, including the low-cost players.

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Is the traditional client – agency model now out of date?

[Will Harris](#)

One of the most tantalising observations about the new technologies is that we tend to overestimate their effects in the short term, and underestimate them in the long term. I say tantalising, because if you apply this thinking to the impact of the digital revolution on the business of marketing, you run the risk of forever declaring false marketing dawns, just as the rest of your peers are celebrating a new age of marketing.

For the last five years, possibly even for as many as ten, people have been calling the end of what is loosely termed the 'traditional' agency model, and old media stack that it feeds. The argument goes that as better alternatives are found to traditional TV (better in this context meaning cheaper), more interactive and more precisely targeted, the TVR (TV rating) and TVC (TV commercial) will be consigned to the scrapheap of acronym history.

More acutely, the big agency model, with its TV producers and accompanying margins, will cease to function under the strain of media that is free or low cost. Put more simply, cheerfully spending one million pounds on production for a TV ad that received ten million pounds in airtime made reasonable sense. If the media becomes essentially no cost, and the only requirement for eyeballs is a clever creative idea, then the acceptable production cost is minimal. Clients will pay good money for creative, the argument runs, but not production.

All this makes perfect logical sense except that it hasn't happened. It's been around the corner for the last five years. Many agencies have, until recently, acted as though we were still operating in a pre-digital mid-1990s.

RECESSION IS THE CATALYST FOR CHANGE

Suddenly, everything has changed. Since the start of this year, a new marketing dawn has broken and everyone is struggling to capitalise on it. And, while digital is the solution, it has been the recession that has been the catalyst for change in many aspects of the client – agency relationship.

Demand side first. Everyone knows that client budgets are squeezed. The process began a few years ago with the professionalising of the procurement process, and a cultural shift towards greater scrutiny of marketing costs and results. The tangible fall-off in consumer demand in many markets has sent shock waves through client companies and their marketing budgets. Companies are making their money work harder for them.

Furthermore, marketers who have seen that deals can be struck everywhere in the world outside of work – buying a new car or a new house, for example – are expecting better deals from agencies and media owners alike.

Imagine you are the marketing director of a brand that goes on TV once a year. Your total marketing budget is in the two to three million range, and half of that is spent on trade support. That budget is now cut in half. You have a choice: support your brand in the trade or support your brand with your consumers.

More marketers are taking the second option, but instead of using the money in traditional media are opting for a digital consumer approach. Rather than spending a million pounds on TV, press or radio, they are spending 50, a 100 or even 200 thousand on something digital. That in itself brings with it an element of risk (which is the subject for another article) but assuming they are well advised, and have a properly joined-up digital strategy (and don't just spend it on banners or search), the results can be spectacular.

Better still, were they to go and find one of the progressive PR agencies that is fusing digital and PR to quite extraordinary effect, the results could be even more spectacular.

The traditional agencies that have spotted this are moving fast to avoid being disintermediated. I have had extraordinary conversations in the last few months with what used to be called advertising agencies. They now come to us and don't want to talk ads at all. They want to talk content and context.

Perhaps you expect that with a nimble privately owned business, but what about the advertising aristocracy that is JWT? Having made unguarded comments to *Campaign* that were taken out of context, I was summoned into its lavish Knightsbridge offices to set the record straight. The net result is that in one of our upcoming campaigns, the task of creating a low-budget, spiky viral film has been handed to ... JWT. It, too, has seen the light and is rapidly evolving its business to survive the new economic climate.

QUESTIONS STILL TO BE ANSWERED

The question, of course, is will the delivery match the rhetoric? How well are the small creative shops set up to deliver a cost-effective brand experience, and make the margin on it?

I'd predict that the agency model will evolve to in-sourced event production, at the same time as much of the low-margin TV production

facilities will be out-sourced. That requires this new type of enlightened agency to buy up some of the smaller experiential brand agencies to create a pretty unstoppable proposition. And the bigger networked agencies with their rush to low-cost production? Again, it works well in theory, and I for one am hoping that it works in practice, too. I'll let you know in the autumn.

In both these cases, it's good old-fashioned economics that is driving change at both a supply and demand level, not a sudden belief in all things Marketing 2.0. In this sense at least, the recession is a good thing for marketing by forcing the agencies to adapt at a faster rate than they would otherwise.

The big question remaining for me is how far and how fast is this change going to happen? We could be looking at the beginning of a genuinely new order for marketing in this country, or in ten years' time we may still have all the familiar faces around, but they will touting different wares. The answer once again probably lies in the broader economy. If we bounce back reasonably quickly into growth, change will be limited to what we are doing now; the old stealing the clothes of the new.

If we languish in a period of stagnation for longer, then it's hard to see how the more excessive aspects of our agency world will survive amid prolonged austerity. That may usher in a more streamlined, less colourful agency landscape, which would make sound economic sense, but would make the marketing world a duller place.

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What the agency model can learn from other markets

[Rory Sutherland](#)

There is a lot of talk in marketing, and quite rightly, about the difference between price and value. But there is probably too little discussion about the difference between price and overall cost – in particular, the transaction costs of making a purchase.

To quote Wikipedia, 'Consider buying a banana from a store: to purchase the banana, your costs will be not only the price of the banana itself, but also the energy and effort it requires to find out which of the various banana products you prefer, where to get them and at what price, the cost of travelling from your house to the store and back, the time waiting in line, and the effort of the paying itself; the costs above and beyond the cost of the banana are the transaction costs.'

There is a good reason why marketers may disregard this. If you are, say, a detergent brand, and your products and your competitors' products are largely sold in multiple supermarkets, the transaction costs are broadly the same for everyone (though strong brands and packaging can significantly reduce consumers' search and information costs: distinctive brands typically make consumer decisions faster and easier).

In other areas of business, reducing transaction costs may be significantly more important than cutting prices. Sometimes there is a risk that people confuse or conflate the two – mis-attributing the success of low-cost or free competitors to low prices when they result from lower transaction costs. Low-cost airlines, for instance, are 'low cost' not only in the prices they charge but also in their pioneering of online booking, which reduces the pain factor involved in planning and booking trips.

THE LURE OF CONVENIENCE

Take the success of Metro. Is it solely popular because it's free, or is it popular because you can acquire a copy in 0.3 seconds without breaking your stride? And without the need to dig into your pocket for change, or to queue behind someone buying a month's Lottery tickets for a 200-member syndicate while you miss your train. Moreover, as you grab your daily free sheet off the rack, no one pesters you by suggesting you complement your reading with an unfeasibly large bar of chocolate.

Next consider the reaction of the music industry to digital piracy. It is absolutely true that illegal music held massive appeal because it was, well, free. But, in its smug way, the music industry was slow to spot the huge additional transaction costs it was imposing on its customers by requiring them to buy music in its conventional, physical form.

Imagine it is 1999 and you want a single track from the latest Metallica album. You can either (a) download it in three minutes in your underwear at 1am and transfer it straight to your iPod, or you can (b) wait until morning, get dressed, travel to a music shop, queue behind a couple of goths, pay £14.99 for a CD that bundles your favourite track with 13 unwanted tracks, take the bus home (another £2), insert the CD into your PC, rip the track and then transfer it to your iPod. Even had the illegal download cost £5, it would still have been a bargain.

And yet, for some years, the music industry refused to sell online maintaining that (b) was the only acceptable option. Its position was not helped by the fact that owning music in tangible form was no longer especially desirable to a younger audience (the packaging of CDs in a laughably named 'jewel case', a nasty piece of frangible plastic with no tactile virtues, can't have helped).

Over-reacting in the opposite way, online news media hastily concluded they must give away content since earlier attempts to charge had failed. This decision may have been another example of confusing price with cost. The pain of registering or typing a password is often far more of a deterrent than the pain of paying 2p to read a page. As iTunes shows, simple one-click micro-payments can still be made to work.

I can cite many more cases where transaction costs, not financial costs, are the real problem. Personally, I am driven almost insane by mainline London stations' practice of charging 30p to use their lavatories. In my case it is not the loss of six bob that pains me – scarcely an egregious sum to pay for the use of clean, safe, manned and generously Andrexed conveniences – but the need to extract two or three fiddly coins while wrestling with weighty bags and a weightier bladder. (My colleague Giles Rhys Jones suggests the system could be improved if you paid when exiting the loo and not on entry, since you would then be, physically and metaphorically, under less pressure.)

What of the fact that young people, famously reluctant donors to charity, become quite generous when you allow them to donate by text message? Or the fact that, in direct marketing, the best improvements are often obtained not by rewriting the proposition but by redesigning the application form (some charities now even enclose a 'nudging' pen with their solicitation)? The creation by Thaler and Benartzi (authors of *Nudge*) of a pension for the young where payment was made less painful by clever deferral (minimising loss aversion) – see <http://tinyurl.com/plhoeb> – is a now famous example of encouraging saving by reducing its emotional costs.

All this is vitally important to marketers. But I believe it is also crucial to understanding the future of their agencies.

In a sentence, too much attention is now being paid to reducing the price of what agencies do, whereas the real attention needs to be spent reducing the other costs.

TACKLING TRANSACTION COSTS

In the last few years, the splintering of agencies into different disciplines, and the fragmentation of media, have made the choice architecture (see <http://tinyurl.com/q6lp7r>) of our business vastly more complex and unwieldy. Decision making is time consuming. Coordination costs have soared. The menu of options has gone from being a McDonald's breakfast to that of a Chinese restaurant, with a bewildering range of options all noisily competing for limited budgets.

One role I hope the IPA can play is for its membership to become more complementary and less conflicting. To work out how to package what we do in a cohesive, complementary fashion rather than as a range of competing voices, presenting a self-organising approach to what we do.

While we do this, we might want to challenge a remuneration system that actually penalises efficiency gains, that encourages turf wars and that pays us not according to the value of what we do but to the cost of doing it. We should also have the courage to question tortuous client approval processes that impose huge transaction costs on the – at root – straightforward business we are in: of generating ideas that turn human understanding into business advantage.

There should be no issue with people being well rewarded. Ours is a business where £20,000 an hour (for the right hour) can be a bargain and £20 an hour can be a waste. The music industry wasn't at fault because of the high price of music – it was at fault because of the high cost of everything else.

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Creative industries play a key role in the knowledge economy

[Ian Brinkley](#)

A knowledge-based economy is, of course, not new – knowledge-based institutions, such as universities, go back centuries. But in the late 1970s and early 1980s, three major economic and social forces combined to initiate a radical change in economic structures across the Organisation for Economic Cooperation and Development (OECD):

1. the introduction of very powerful and relatively cheap general purpose information and communication technologies that have gone on getting more powerful and cheaper at an accelerating rate
2. powerful consumer markets made up of well-educated and demanding consumers with a voracious appetite for the high value added services that characterise the knowledge economy
3. globalisation acted as an accelerator – opening up both mass markets of global scale and an endless niche markets, as well as speeding up the spread and adoption of new technologies and ideas.

These changes are universal – they affect all industrial sectors, all sizes of firms, the public sector as much as the private sector. And they are global – we have yet to find an advanced industrial economy where these changes are not taking place.

The evidence for these changes is compelling. In 2004, UK businesses invested nearly £130bn in knowledge-based assets – or 'intangibles'. This was roughly 140% (1.4 times) the investment in more traditional physical assets. In 1970 such investments were worth only 40% of investment in physical assets.

Figure 1 shows the distribution of intangible investment in 2004. Such investment is centred on three areas: technology-related investment, human and organisational capital, and explicitly related creative activities such as design, brand equity and copyright.

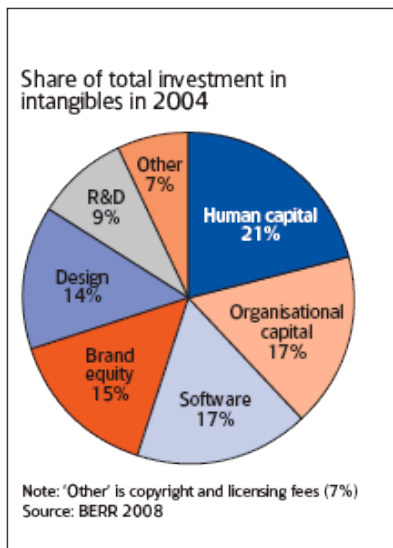


Figure 1: Business investment in intangibles: Share of total investment in intangibles in 2004

The same results have been found by national studies in such diverse economies as the US, Finland, Japan and the Netherlands. The impacts on employment and industrial structure are profound and they are common to all advanced industrial economies without exception. We identify three key developments:

1. a dramatic fall in the share of the unqualified workforce, from 70% in 1970 to less than 15% today
2. a big shift in employment and value added towards knowledge-based services, the biggest source of jobs in today's economy (see Figure 2 for change in value added)

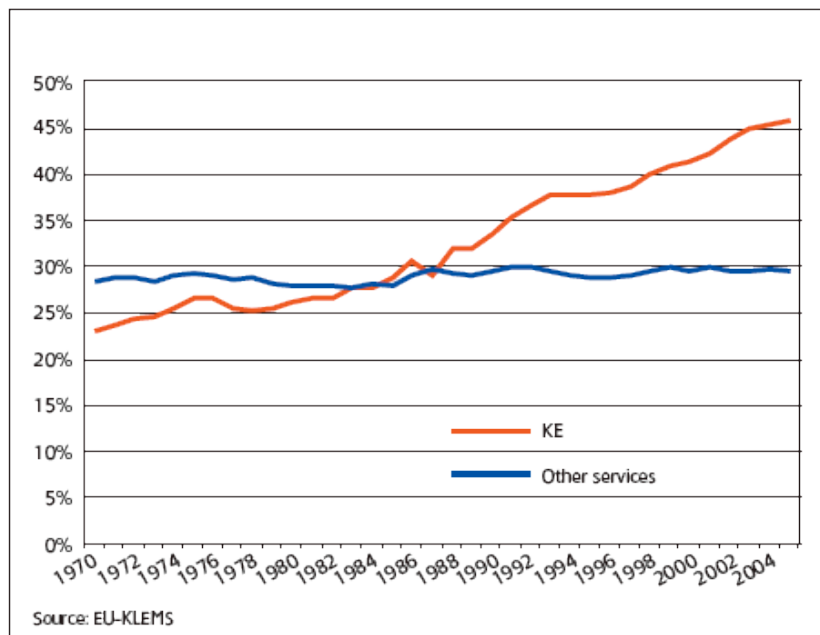


Figure 2: UK share of value added in KE services (1970–2005)

- the redrawing of conventional industrial boundaries between manufacturing and services and within services itself.

The Work Foundation's (TWF) 2006 report, 'Staying Ahead', set out the contribution of the creative industries as part of the knowledge economy. The DCMS estimates provide a good economic map of the creative economy (probably one of the best in the OECD). The latest published figures – updating those set out in the 2006 TWF report – are impressive:

- between 1997 and 2005 the industries grew at an average of 6% per annum in real terms measured by gross value added
- between 2000 and 2005 exports grew by over 50% in current prices
- between 1997 and 2006 employment (direct and indirect) grew by 340,000, or 21%, to reach 1.8 million.

But precisely because they cut across conventional statistical boundaries it can be hard to fit the economic map of the creative and cultural industries back into the knowledge-based industries or indeed the economy as a whole. Making comparisons with the rest of the knowledge economy on a like-for-like basis is not straight forward.

This concern with definition, measurement and comparability may look like the obsessive focus of policy wonks, but it is a key building block to understanding the economic position and dynamics of the creative sector, and convincing others it matters and that it deserves special attention.

The debate on intangibles goes back at least 30 years and was largely focused on how they were represented in company accounts. However, five years ago, obscure research papers started to publish estimates of just how important intangible investment had become and why it mattered to our understanding of how modern economies work.

Today, the concept has entered mainstream economic and industrial policy thinking within Whitehall, and within the OECD and the EU. The European Commission has committed itself to a major research programme across some of Europe's top universities to understand the future economic and employment implications for Europe.

The TWF 2006 report made three broad conclusions using the knowledge economy framework, the hard data that existed at the time, and the insights from an extensive review of and conversations with firms and organisations in the creative industries.

CREATIVE INDUSTRIES MATTER

First, the creative industries matter because they are an important and integral part of the UK's knowledge economy and likely to become more so in the future. As we discuss below, this conclusion has been sharply reinforced by recent economic events.

Second, the creative and cultural industries are disproportionately important because they impact on national creativity across a wide range of industries and so had wide-ranging impacts on both the economy and society more generally. The TWF report identified six types of 'spillover effect' that could transmit these wider economic benefits.

Third, there had to be a paradigm shift from thinking about the creative and cultural sectors as worthy recipients of grants and subsidies, to one where they're seen as major economic players in their own right, where investment offers significant economic and social paybacks.

The TWF report did not set out detailed policy proposals for the creative sector, as these were for government in the subsequent Green paper and for the individual sectors to develop. It did, however, make the point that policy had to look at a wide range of issues, including the role of the education system, rather than just those specific to the creative and cultural industries.

Since the report was written, economic events have taken an unexpected turn. We face a deep recession of unpredictable length. That uncertainty is even greater for the knowledge economy and in particular the creative sector.

INTANGIBLES: RECESSION-PROOF?

A key question is what happens to investment in knowledge-intensive intangibles in a recession – which is another way of asking how businesses are going to react. A closely related question is how consumers will respond – we can already see some effects from cutbacks in discretionary spending on the hospitality sector.

A recent analysis of US spending patterns by McKinsey shows that in previous downturns US consumers increased some forms of spending and drastically cut back others in comparison with the long-term average. They spent more on education, magazines and books, personal insurance and health care. They spent much less on eating out, personal care services, transport and clothes. Spending on entertainment also fell, but much less drastically.

Of course, these figures are for US consumers and include both a sharp downturn (1990–1992 and one that was quite short and shallow (2001–2002). The current recession may also have different priorities (one can imagine that selling new financial products at the moment could be an uphill task). However, if these patterns held for the UK, then spending on some forms of knowledge services might actually go up compared with spending on more traditional services.

The same article also looked at business spend on software over 50 countries, and found that spending fell by more than GDP in both previous downturns. However, McKinsey thinks spending may hold up more robustly in this downturn because firms had already cut back spending levels after the 2000 'dotcom' and 'millennium bug' boom.

We know that in most recessions investments in physical assets tumble, and this recession is no exception (business orders for new construction work have already collapsed). But we know very little about whether intangible investments are more or less recession-proof than physical assets, or how badly the more cyclically sensitive creative industries will be affected.

The simple reason is that there are few measures that let us see what happened to such investments in the downturns of the 1980s and 1990s, so we have no benchmarks. But there is also the problem of untangling cyclical factors from underlying structural changes.

More generally, will we see a flight from intangibles as banks place more weight on easier to value physical assets, rather than the less well understood 'intangibles'? And if the supply of private venture capital dries up – especially for start-ups operating in riskier and harder to assess areas – an important area of entrepreneurial dynamism will be weakened in the UK.

Knowing the answers to some of these questions has never been more important. Both physical and intangible investment of course matter. But intangible investment is at least 40% higher across the economy as a whole than physical investment. In some sectors, such as manufacturing, it is more than twice as large. Substantial short-term cuts in areas such as R&D, strategic advertising, software, design, and human and organisational capital could leave many firms struggling to catch up in the upturn.

A MORE EXPLICIT GOVERNMENT STRATEGY IS NEEDED

The government will be, out of necessity, devoting much of its collective attention to the short-term impact of the recession over the next 18 months. However, ministers also need to be thinking about what the post-recession economy could look like and what needs to be put in place now to ensure the key sectors emerge in good shape to take advantage of the upturn.

Within this broader policy agenda, we have argued that the government should develop an explicit strategy for developing the UK's knowledge economy. At the heart of the strategy must be encouraging investment at all levels in – broadly defined – knowledge and the knowledge asset base, and the means to exploit and develop them.

Many of the component parts are now in place through the innovation and enterprise White Papers, the Leitch Review, the post-Green Paper by the Department for Culture, Media and Sports, Creative Economy Initiative and the Manufacturing Strategy Review.

These initiatives needed to be brought together – the fact that the 2007 Spending Review failed to do so was a missed opportunity.

The financial services sector will grow much more slowly than in the past and may contract as a share of GDP in the short to medium term. The obvious implication is that other sectors will have to take up the slack if the UK is to continue to develop its knowledge economy.

CREATIVE INDUSTRIES MUST MAKE THEIR CASE

The creative and cultural industries should be one of those future knowledge economy growth sectors and that strategic role should be explicitly recognised across government. But it will not happen without the creative industries collectively developing a more robust evidence base to improve understanding of how their industries really work, and how they interact with other parts of the economy.

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Day of the clones

[Simon Silvester](#)

Tom is a brand manager. His approach is thoroughly professional. He's searching the world for best practice, and is bringing it to his brand. He's also benchmarking his brand against competitors, making it look as good as they do. And he's optimising his communication plans, ensuring they're best-in-class.

'Seeking best practice', 'benchmarking' and 'best-in-class' sound important. But they all mean Tom is copying his competitors. And because his competitors are professionals too, they are copying Tom back. In today's world, everyone is searching for the same best practice. Everyone benchmarks against each other. And everyone optimises their communications plans. Everyone is copying each other. And so their brands are becoming clones.

There's a further problem. Today we live in a world of (theoretically) perfect information. Everyone has exactly the same Google sitting on their desktop. All brands have access to high quality market research. All brands have high quality competitive intelligence. Faced with exactly the same information, it's difficult for marketers not to make exactly the same decisions. Easy access to information is turning brands into clones too.

Things have got worse, not better, as the world has moved online. In 2004, Tom tried e-commerce. In 2005, he developed a Flash-based website. In 2006, he launched an organic search strategy. In 2007, he explored paid search. In 2008, he dipped into social networking. But so did every other brand manager in the world. Digital is making brands look like clones as well.

Management pressure for marketing to behave professionally can encourage brands to become clones as well. Tom's CEO encourages him to follow industry norms, and not to deliver 'surprises'. His finance director encourages him to adopt the same level of marketing budget as others within the industry. The rest of the board encourage Tom to work like their departments do, in slow predictable movements, not in radical leaps. So company managements are also encouraging brands to become clones.

The clone problem is so bad that, today, entire industries are following exactly the same marketing strategies:

- In 2007, every telecoms company in the world launched a multiple-play package of fixed line, broadband and mobile.
- In 2008, they all launched a mobile broadband USB dongle.
- And a new package of services with a free web notebook bundled in.
- And, throughout this period, all offered a complex package of minutes and texts that none of their customers understood.

It's the same with banks. Today, all offer exactly the same Visa cards. And the same ATM functions. And the same loans leaflets. In industry after industry, brands are becoming clones.

WHAT'S THE EVIDENCE FOR THIS?

Differentiation levels are falling for brands in certain categories all over the world, as has been shown on on Y&R's global BrandAsset Valuator tool, which is the only global study that actually measures differentiation. In many categories differentiation levels have collapsed over the past ten years. The clone effect is both quantitative and real (see box).

PROBLEMS WITH CLONES

Measurement is difficult but it's worth it. Established brands with low differentiation in the Clone Zone face serious problems.

- Clone brands struggle to attract customers. We've found that all the brands with rapidly growing user bases lie outside the Clone Zone. Brands within the Clone Zone typically have static or declining user bases.
- Clone brands have all failed in the past. We have studied the movement of brands around the PowerGrid for 15 years (see Figure 1). We have never seen a new brand start in the bottom left-hand corner of the PowerGrid and then move directly into the Clone Zone. Brands in the Clone Zone were therefore generally highly differentiated at some point in the past, and then lost it.

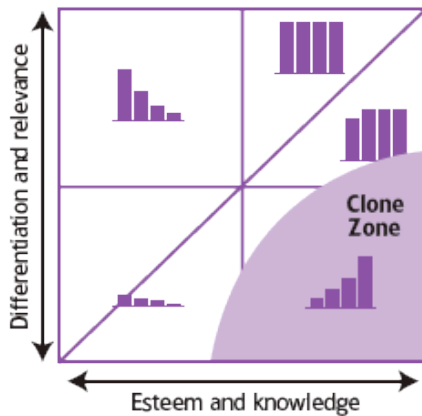


Figure 1: The powergrid

- Cloning can happen fast. We've found that the differentiation levels of many brands collapse two years after their launch – the clone tendency can start early. Once a brand has fallen into the Clone Zone, it struggles to attract new users. This is why marketers often say that they pick up all the users they will ever pick up in the first two years after launch.
- Entire industries can become clones. Differentiation can decay fast as a market becomes less sexy. Mobile service provider brands did well in the 1990s as the mobile phones became the coolest accessory for young people everywhere.

Ten years later, mobile service providers are struggling to maintain differentiation, as their marketing promises become little more than low, low prices.

- Clone brands cannot range-extend. Range-extending a brand is an important part of marketing. Therefore, we've looked at brands that have successfully extended their ranges and meanings into new areas, as well as brands that have struggled to do so. The brands that have successfully extended into empires, like Nike, which extended from sports shoes into an entire sports-driven lifestyle, and Apple, which extended from computers into music players and phones, all lie towards the top of the PowerGrid.
- Clone brands struggle with me-toos. Marketers of clone brands spend their lives fighting off private-label and other types of me-too brands. Highly differentiated brands do not need to do this. Apple's iPod team does not worry about new entrants to the MP3 market.
- Clone brands have the lowest margins. Financial analysts have looked at the financial performance of brands at differing positions on the PowerGrid. Brands in other parts of the PowerGrid have margins up to three times higher than brands in the Clone Zone. Clone brands therefore do not just perform badly in image terms. They also make less money.

THE PROCESS OF ACHIEVING DIFFERENTIATION

When a successful brand is launched, the first thing to rise is its level of differentiation. After that, other attributes like 'stylish', 'caring' and 'up to date' may rise, as it develops a brand image. Some attributes, like 'trust', can take a decade or more to grow. If differentiation doesn't rise, a positive brand image struggles to appear. Differentiation is therefore the most important attribute in marketing.

Once a brand has differentiation, it then needs to persuade consumers that its difference is relevant to their needs. It can succeed with a low level of any attribute apart from differentiation and relevance. But if a brand is not differentiated, it does not leave the starting gate.

Differentiation is the thing that produces awareness. Awareness doesn't produce differentiation: there are plenty of high-awareness brands with low differentiation. Differentiation is therefore more important than awareness too.

Differentiation is the thing that makes a brand grow. A brand that acquires high levels of differentiation and relevance tends then to grow rapidly in terms of esteem and knowledge, and move towards the 'iconic' brands like Coke, Ikea and Nike in the top right of the PowerGrid.

All the big brand successes of this decade have grown along this path. Conversely, a market where differentiation levels have collapsed most consistently across the world since 1993, has been mobile telecoms.

If you're a smart marketer, differentiation can rocket even before you've launched your brand. Spanish clothes brand Zara was one of the most differentiated brands in Sweden – before it opened its first store.

With Starbucks and iPod, their differentiation level just keeps building over time.

The trick is not just to launch something different. It is to keep it different as time goes on.

But differentiation is counterintuitive. The way differentiation works is not obvious. High levels of differentiation disrupt other brands that lie outside conventional perceptions of a brand's marketplace. Starbucks is a coffee shop, Nescafé is packaged coffee. But when Starbucks' level of differentiation went up, that of Nescafé and other packaged coffees went down.

Differentiation involves taking the road less travelled. If you're a yoghurt manufacturer, would you promote your yoghurt as being good at speeding digestive transit, rather than talking about yummy chunks of fruit? All your focus groups would say no. But Activia did it in 2000. Nine years on, Activia is the most successful dairy brand in the world.

Note to marketers who have a close relationship with R&D scientists: differentiation is in the eye of the beholder. Coke and Pepsi taste pretty similar. They come in similar cans. But both are highly differentiated brands.

When a top brand stumbles, the first thing about it to decline is its level of differentiation. It is an early warning sign of trouble for the brand. As your market gets mature, a distinctive philosophy can keep you differentiated.

Nike's compelling 'Just Do It' philosophy has kept it differentiated for 20 years.

Measuring differentiation answers the age-old question of whether one should line-extend one's brands. Highly differentiated brands like Coca-Cola extend with impunity. Weakly differentiated brands end up meaning nothing.

HOW TO BUILD DIFFERENTIATION

Knowing about differentiation is good. But what really helps is knowing how to grow it.

Unfortunately, many big packaged goods companies have forgotten. Instead of building their own highly differentiated brands, they have started buying them in from other companies. The world's biggest marketers have outsourced the most important part of marketing.

So how do you grow it? Here are some of the things we have learned about how to grow differentiation:

- Talk to non-users: when Nintendo invented the Wii, they did so by talking to people who didn't use video gaming consoles, and asked them why they didn't. Girls told them that unlike their brothers, they didn't get off on killing things. Nintendo gave them *Cooking Mama*, *Wii Fit* and *Nintendogs*.
- Get a vision: the Body Shop moved away from other 'natural' toiletry retailers when it announced it was against animal testing.
- Keep developing your offer: a brand that continually reinvents itself keeps its differentiation up. The iPod developed the capability to carry more songs. Then photos. Then podcasts. Then videos. Then it introduced a touch interface, WiFi, and then music and application stores. Not all digitally based brands do this – most banks haven't added any more facilities to their ATMs since the 1980s.
- Give your brand a sense of dynamism: coffee shop chain Tchibo keeps differentiation up by offering a rapidly changing set of offers for household appliances, foods and garden equipment. The rapidly changing offer keeps the brand fresh.
- Use the power of scarcity: if you find yourself a nice dress in Zara, buy it now. Because once an item sells out in Zara, it doesn't restock it.
- Getting differentiation up can sometimes mean rethinking your business model. In 2008, Prince realised that with CD sales in freefall, he was not about to make great sales of his new album. So in the UK, he gave the album away on the front of the *Daily Mail*. His subsequent concert tour sold out.
- Go for the jugular. Dr Kawashima's *Brain Training* for the Nintendo DS has been a huge hit amongst fifty-something adults because it is upfront about how weak their mental faculties are. 'You have the brain of an 80 year-old' screams Dr Kawashima at his terrified users.
- Don't worry about value for money. The Red Bull can is smaller than a typical soda can. That's what makes people think Red Bull is special. Baileys was just the leader in the cream liqueur market until Diageo started pushing the price up way above the competition. Girls in bars then realised that if they ordered a Baileys they'd look expensive, and if they asked for anything else they'd look like a cheap date. Today Baileys is in a class of its own.

WHY IT MATTERS NOW

Marketers need to understand differentiation above all today. The analogue media we have used for decades are being replaced by digital media. And the scary thing about digital media is how brutal the feedback is. In the analogue era, you could boast about the word of mouth your campaign was generating, safe in the knowledge that word of mouth was unmeasurable, and therefore you could not be contradicted. You could also produce the world's most boring advertising campaign, and still reassure your shareholders that you had achieved 100 million impacts.

In the digital era, you can produce a really brilliant website and still get no clicks. And you can measure online word of mouth precisely with tools like VML's SEER (vml.com/seer). In the digital era, monitoring tools like dashboards let you watch people click on your ad, or interact, or respond as it happens. The success or failure of your campaign is revealed quantitatively, decisively and instantly. Digital exposes failure because in the digital era, everything is measurable.

Undifferentiated brands stand out by their failure to achieve anything. So the buck stops with marketing.

HOW BRANDASSET VALUATOR WORKS

BrandAsset Valuator (BAV) has taught us that brands have four main pillars: differentiation, relevance, esteem and knowledge. Differentiation reflects the uniqueness of a brand's meaning and its point of difference against competitors. Relevance indicates how appropriate consumers perceive the brand to be. Relevance is linked to market penetration.

Esteem measures consumers' quality perceptions of, and respect for, the brand. Finally, knowledge indicates how familiar consumers are with a brand. All brands are measured using these four pillars, normalised on a 0% to 100% scale. To look at brands visually, we combine differentiation and relevance into a single (leading) measure on a vertical axis, and plot it against a single (lagging) measure made by combining esteem and knowledge on the horizontal axis.

The resulting diagram is called a PowerGrid (see box). Brands with low levels of differentiation and relevance, but high levels of esteem and knowledge, fall in to the Clone Zone.

Differentiation is an absolute measure – it is measured against all other brands, not just those within a specific market. You can't measure differentiation within a market. That's because differentiated brands change the very nature of the market they are in. By combining differentiation with relevance on the PowerGrid, we downplay the occasional, fleeting and ultimately unimportant appearance of brands that gain high initial differentiation, but which then fail to generate relevance.

BrandAsset Valuator has measured over 38,000 brands among 500,000 consumers in 48 countries since 1993.

THE EYE OF THE BEHOLDER

As with all things in marketing, differentiation is in the eye of the beholder. So a mobile phone network can create an ingenious set of new pricing plans, but fail to raise its level of differentiation because so few of its customers understand pricing plans – its current one included.

On the other hand, when Japanese brands first penetrated America in the 1960s, they didn't technically do anything different – they just manufactured things with significantly more reliability at a significantly lower price.

But because all other brands at the time were made in America, and Japanese brands came from 'those wonderful people who brought you Pearl Harbor', the first Japanese brands were perceived as different, controversial and therefore highly differentiated.

- It's not who you are.
- It's not what you do.
- It's what you are seen to be and to do that matters.

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Differences between the sexes: it's all in the brain

[Collette Dunkley](#)

The feminist agenda has been with us for over 30 years and we might have thought the subject was well and truly closed. Yet, two issues are regularly confused: equality under the law vs equality (in the sense of 'sameness') of behaviour, motive, psychological make-up.

As with many social changes, opinions swing wildly from one extreme to the other. Generations ago we were told that women were physically, intellectually and psychologically completely different from men. Later, feminists rebelled, telling us that women and men are the same: women can do anything men can do, and vice versa – differences are conditioned by society.

Neither of these extremes is very helpful to marketers and communicators whose job it is to sort out when differences between the sexes matter and when they don't. And it turns out that we are still looking at the subject very crudely and simplistically.

Six years of research into the behavioural differences between the way men and women communicate, shop and make decisions have convinced me that differential approaches to men and women in the workplace and marketplace can reap very considerable increases in satisfaction, engagement and sales conversion levels. Indeed, the research outlined in the *New Scientist* (see box) proposes a startling new reality: 'Male and female brains are built from markedly different genetic blueprints ... There is not just one kind of human brain, but two.'

A BRAIN LESS UNDERSTOOD

Over the last few years PET and MRI scans, laboratory testing, paediatric observations and chemical/hormonal analyses have confirmed that differences in behaviour between the sexes are driven by innate, anatomical variations. In short, our brains differ in structure and the way they operate: men and women are hardwired in different ways.

The science is still in its infancy and no doubt we have only scratched the surface but it has already started to make sense of things that women knew intuitively but couldn't use to precipitate change in the absence of scientific proof. However, a few small changes in approach when marketing and selling to men and women are showing disproportionate results.

Of course there is a spectrum of male and female behaviour, i.e. some men demonstrate more female traits than other men, and similarly some women demonstrate more masculine traits than others. However, the median points for all men and all women are significantly far apart on the scale. Conversely, some countries demonstrate more feminine-dominated cultures and others are more masculine. This is important to know when applying differential approaches to global brands.

Competitive advantage is the prize for companies that acknowledge that they are not marketing and communicating to people but to men and to women.

What is surprising to me is how little fundamental change has occurred in most companies. A cursory nod is no longer appropriate by a profession that claims to satisfy customer needs and wants. Two things now necessitate a change in approach by our professional community.

First, the growing economic influence of women on the marketplace is well documented. The availability of the contraceptive pill over 40 years ago allowed women to plan both a family *and* a career, rather than have to choose one over the other; today more women than men are university-educated and have millionaire status by the age of 44. By 2020, 53% of UK millionaires will be women.

Second, gender science has, advanced beyond the chic-lit, coffee-book realm of *Men are from Mars, Women are from Venus*, providing proof that the genders act and respond differently because of innate neurological, chemical and social differences. We behave differently in both the workplace and the marketplace, so internal and external communications need to be recalibrated.

This is about doing things differently not about bolting on campaigns for women. It isn't about increasing budgets but building gender intelligence into the customer experience. In the same way as the internet is now fully integrated into marketing strategy and measurement systems, so too should gender intelligence be an integral part.

Let's take a look at a few simple changes that can make an immediate difference.

Metrics

How many companies divide their customer satisfaction scores by gender?

Such an exercise can unearth interesting insights. Different questions should be considered as men and women have varying expectations and requirements. Many companies benchmark only within their own sector, even though the whole industry is described by women as 'men marketing to men'. The gender intelligent company can become the brand that most engages with women by raising the bar. Women compare across all their buying experiences, not just within sectors.

We can all guess which industries are most cited by women for providing a poor customer journey. I have worked with many and can attest to the insular benchmarking and unbalanced gender split of decision-making teams both inside the industries and companies as well as inside their marketing and advisory agencies. When the insides of companies do not reflect the outside and gender intelligence is not taught, it is little wonder that customers are not satisfied and senior female executives remain thin on the ground. As many as 86% of women hate the car-buying experience. I challenge you to find more than a handful of female executive directors in the industry to ask why.

Creative

How many creative directors in the top-tier advertising agencies are women?

According to the IPA, the ratio of male to female creative directors is 80:20 – and at the last count 19 of the top 20 creative directors were men. Yet if a male and female creative are given the same brief, blind market tests reveal that women usually prefer the work of the female while men prefer the output of the male creative. Given that women influence 80% of consumer purchase decisions, this creative ratio can't be optimal for clients.

Messages

Is uniform messaging effective?

Not usually. Seemingly, while men like to pimp up the outside of a car, women would prefer to pimp up the inside, yet promotions and information focus on exterior design and performance. Product attributes are of more interest to men than women, which explains the relatively small number of women that purchase *Stuff* magazine or *What Car?* The 'drive of your life', 'the ultimate driving machine' and the 'car in front' appeal to the male competitive streak. She wants to know what it does for 'brand me' and how it will enhance her life.

Channels

How many companies vary the marketing mix for men and women?

Word of mouth and lifestyle PR influence women more than other channels. Women are more receptive to advertorial and have different ways of creating memory so respond better to different media and contact strategies than those that work best for men. Media planners should be aware of the differences.

People

How many companies teach their frontline staff how to sell or communicate differently to male and female prospects or customers?

Some 75% of women feel ignored, patronised or offended by salespeople when buying electrical goods. Linear scripts do not work as women are not linear thinkers.

To optimise the customer experience, frontline staff need to have product knowledge, general customer service training and to understand gender-differentiated approaches. I teach differential sales approaches to call centres and customer facing teams. Within one week sales conversions to women typically increase by 40% and by 10% to men. Customer satisfaction levels also tend to increase. Women are more sensitive to the human interface of a product or brand.

Buying Environment – Retail

How many companies audit their retail facilities to appeal to women?

Men buy. Women shop. We girls take longer to buy, and we visit more stores and sites. A woman's sensory receptiveness is higher than her male counterparts on all five counts. So we are more sensitive to the shopping environment. Again this is not about painting it pink but raising the bar. Retail audits reveal that very low-cost changes make a big difference (lids on waste-paper bins, paint colour, waiting facilities). Women like shopping with Apple, Ocado, John Lewis, Selfridges and independent boutiques. They don't like buying cars, electronics or financial services (there are also products that men don't like buying too, but that's the subject of another article).

A few traditionally masculine industries are waking up to their female customers. With three in four women claiming to make all major domestic DIY decisions, B&Q recently embarked on a major programme to improve its appeal.

The warehouse feel has been axed in its interior design and furnishing departments in favour of lifestyle displays and in-store merchandising.

Online

As well as shopping differently on the high street women also shop differently online: with different entry points, search words, design and navigational preferences, dwell time and conversion behaviour. (It's one thing getting lots of people to your site but if they don't do anything when they get there then you have effectively filled your shop with non-buyers.)

Internal

How many companies train staff to recognise and adapt to different authentic work styles?

Catalyst (a research company in the US) proved that *Fortune* 500 companies with higher numbers of women on their boards have a higher ROCE (return on capital employed) than their competitors. At XandY we teach gender intelligence and how to optimise mixed team dynamics. That is the only way to foster gender-neutral cultures, and to attract and retain more women at every level of an organisation.

Coaching and mentoring women to behave more like men may help one woman but will never create a workplace environment that makes promotion and opportunity equal for both sexes. Men and women join the workplace with different but equally effective natural working styles.

If marketing is, put crudely, about influencing the way people choose and behave, and if we believe that men and women have natural behavioural differences then shouldn't marketing and gender science be joined at the hip? Not just at the tactical level of pink products, more female salespersons, flowery creative but at the strategic level.

The biggest change of the last 50 years is not the media explosion or the internet but the huge rise in female influence on the marketplace and the final verification by scientists that the sexes do have predictive behavioural differences. There is a big difference between reaching an audience and connecting with them.

With the high street in meltdown and any certainty of economic growth fading from sight, this is the time for organisations to re-evaluate all customer touchpoints to improve engagement with all customers. A cursory nod to the differences in the sexes is no longer an appropriate response by a profession that aims to 'anticipate and satisfy customer needs profitably'.

WHAT RATS TELL US ABOUT MEN AND WOMEN

Despite the volume of information on the treatment and portrayal of women, a cover story last summer in the *New Scientist* made me sit up and take notice. Entitled 'Brains apart, two sexes divided by grey matter', it explained how most pharmaceutical products have only ever been tested on male rats. This is because the varying hormonal cycles of female rats would preclude constant and controlled experimental conditions.

However, recent tests of certain drugs on female rats have shown very different responses and pain thresholds. The report therefore concludes, that a whole body of scientific research is based on shaky foundations and implies that all drugs may need to be reconstituted so that they can be applied differently to men and women.

Granted, a story about rats may appear a bit random in a marketing magazine. However, there is a parallel thought for business. Recent developments in gender science and gender intelligence are beginning to allow predictive behavioural differences between the sexes, which have significant implications for business practices and processes that have a human dimension at their core, i.e. marketing, PR, HR and sales.

'Women are the most common pain sufferers, yet our model for pain research is the male rat' (Dr. Mogil, McGill University, Montréal).

This dramatic oversight in the pharmaceutical industry finds echoing parallels in contemporary marketing. Despite women being the most influential buyers, best practice was developed in the days when men were the main influencers at both the supply and demand end of the market. Women are now prominent in the workplace and marketplace. The theory needs to be recalibrated.

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How brand equity metrics drive brand strategy

[David Haigh](#)

On Friday 2 April 1993, Philip Morris cut the price of Marlboro cigarettes by 20%, to compete with generic cigarette manufacturers selling budget and supermarket own-label brands at low prices. The marketing and financial media immediately ran hysterical headlines announcing the death of the Marlboro brand specifically, and premium branding generally.

Philip Morris' share price went into freefall, dropping by 26% in one day and cutting \$10 billion off the Philip Morris market cap. Investment analysts slashed the share price of Coca-Cola, Tambrands and many other branded manufacturers.

But 'Marlboro Friday' was not the death of either the Marlboro brand or premium branding. Marlboro's action stopped a price war that had begun in the early 1990s recession, leading to significant US market share erosion for Marlboro. Marlboro brand managers had wrongly believed that the brand's absolute price was sacrosanct. As its competitors increasingly cut price Marlboro's relative price premium grew, putting the brand out of reach for many hard-pressed consumers. By cutting its price Marlboro restored the relative premium over generic brands.

As a result Marlboro rapidly recovered its lost market share and Philip Morris recovered its share price within two years. Some 16 years later, the Marlboro brand commands a global volume of 467 billion 'sticks' out of a global total market of 1,420 billion 'sticks' (*The Times*, August 2007), an awesome 33% global market share. This drives multi-billion-dollar sales at the Altria Group, the holding company of Philip Morris. Marlboro's brand value currently stands at \$5.2 billion (BrandFinance500, 2009).

Not bad for a 'dead' brand. But all Philip Morris did was to rebalance Marlboro's price: value equation in the minds of consumers. Marlboro provides a salutary lesson for brand managers who have not yet lived through a major recession. The fact is that managers of premium brands are often slow to realise that drivers of consumer preference have changed. Price is not the only demand driver that needs to be adjusted in recession, and brand managers need to learn how to finesse them all.

FINESSING THE DRIVERS OF CONSUMER CHOICE

The crucial issue is interpreting the utility of different brand equity attributes to better predict changes in consumer preference and demand. Brand equity attributes, or drivers of consumer demand, can be categorised into three distinct groups: functional, emotional and conduct. Brand preference affects consumer behaviour in the form of trial, repeat, recommendation and willingness to pay a price premium.

PEPSI VS COKE

Taking a brand like Coca-Cola, the three brand equity categories driving demand are:

- functional drivers, e.g. taste, aroma, bottle design, availability, price
- emotional drivers, e.g. innovation, popularity, activity, optimism, aspiration, sociability
- conduct drivers, e.g. responsible production, employment practices, honesty and transparency, corporate social responsibility, energy policy.

Each of these macro-drivers can be further sub-analysed into numerous micro-drivers to gain a deeper understanding of which macro and micro drivers are driving consumer choice at a given point in time. It is possible to statistically model and predict the effect of changing performance on each driver.

It has been shown that when consumers rate Coke and Pepsi in blind tests, the preference is for Pepsi. However, when the brands are named and consumers asked to rate all other attributes in addition to taste, Pepsi still wins on taste but Coke is preferred overall (see Figure 1).

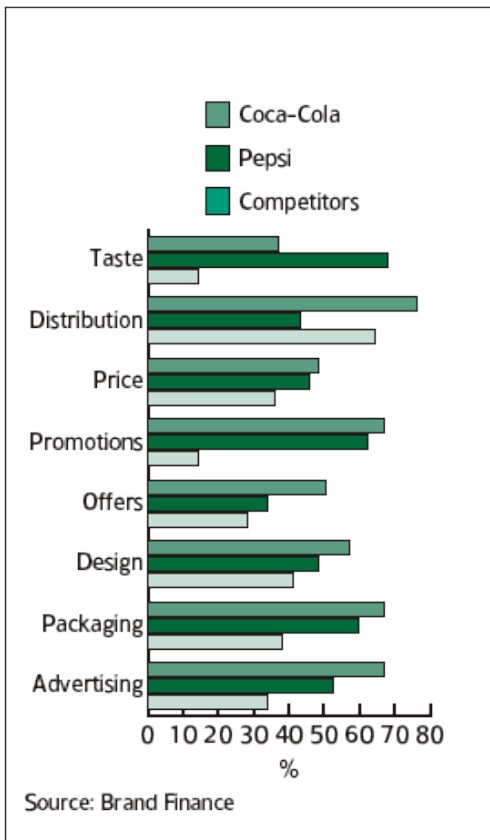


Figure 1: Coke beats pepsi when other attributes revealed

Every consumer has a mental map of the attributes and sub-attributes that matter most to him or her, when selecting brands in each product or service area. It is possible to map the performance of each brand against each attribute and then compare this with the consumer's perceptual map of what really matters in the selection of a brand. By understanding what matters to a consumer at a given point in time and understanding how that consumer rates the performance of each brand in the marketplace, brand managers are able to explain and predict brand preference and demand.

Over the last decade Pepsi has done a good job of investing in image attributes (through music and sports sponsorship, improved advertising and new packaging). The results speak for themselves (see Figure 2).

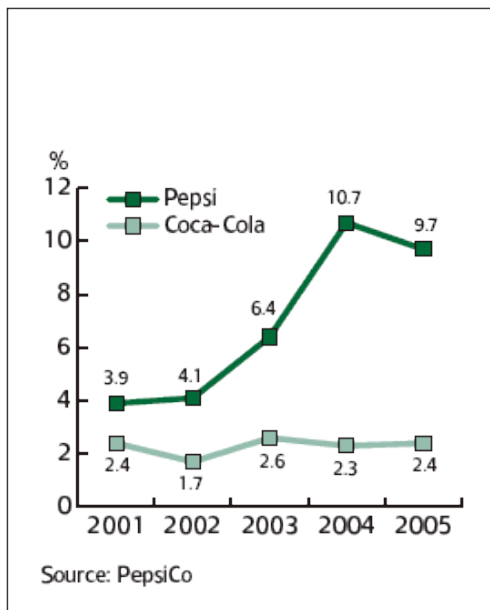


Figure 2: PepsiCo: 2002–2005 international volume growth

This effect applies to all stakeholder groups. It is interesting to note that, in the same period that Pepsi outperformed Coke among consumers, the relative share price to net earnings ratio (price:earnings ratio or P:E ratio) reversed for PepsiCo and Coke, indicating a growing preference among investors for the Pepsi branded business (see Figure 3).

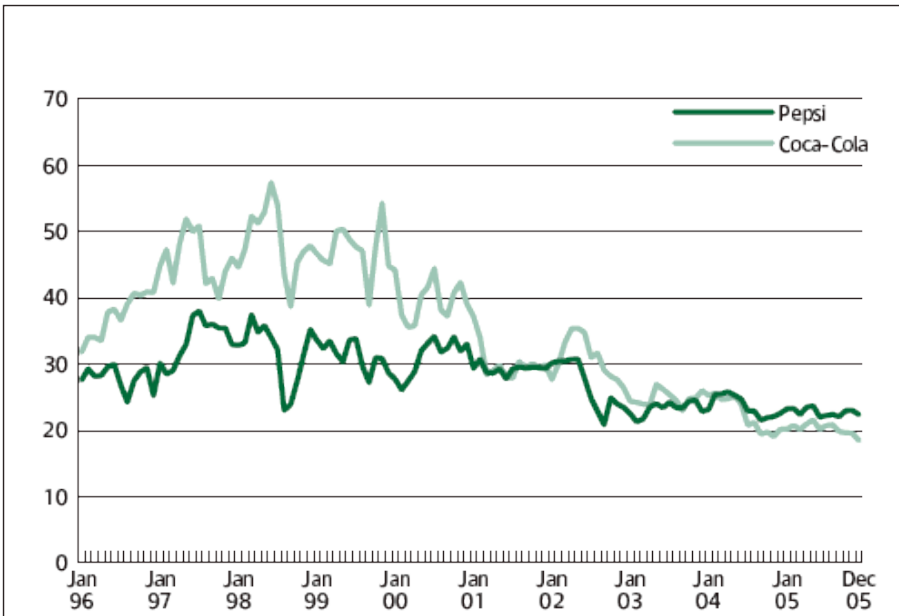


Figure 3: Brand effect on investor behaviour: Pepsi versus Coca-Cola. P:E ratio

VODAFONE VS PARTNER BRANDS

Just as one brand can outperform another, in a competitive context it is also possible for one brand to enhance the performance of another by improving its performance on key consumer attributes. This is the basis of all master or endorsement branding strategies.

A good example of this is the effect the Vodafone brand has on the performance of smaller, less well-known, partner brands (licensees of Vodafone technology and branding).

The anonymous example over the page illustrates the effect Vodafone has on the performance of one potential partner brand against certain key performance attributes – (notably innovative designs, network quality, international network etc. (see Figure 4 over the page).

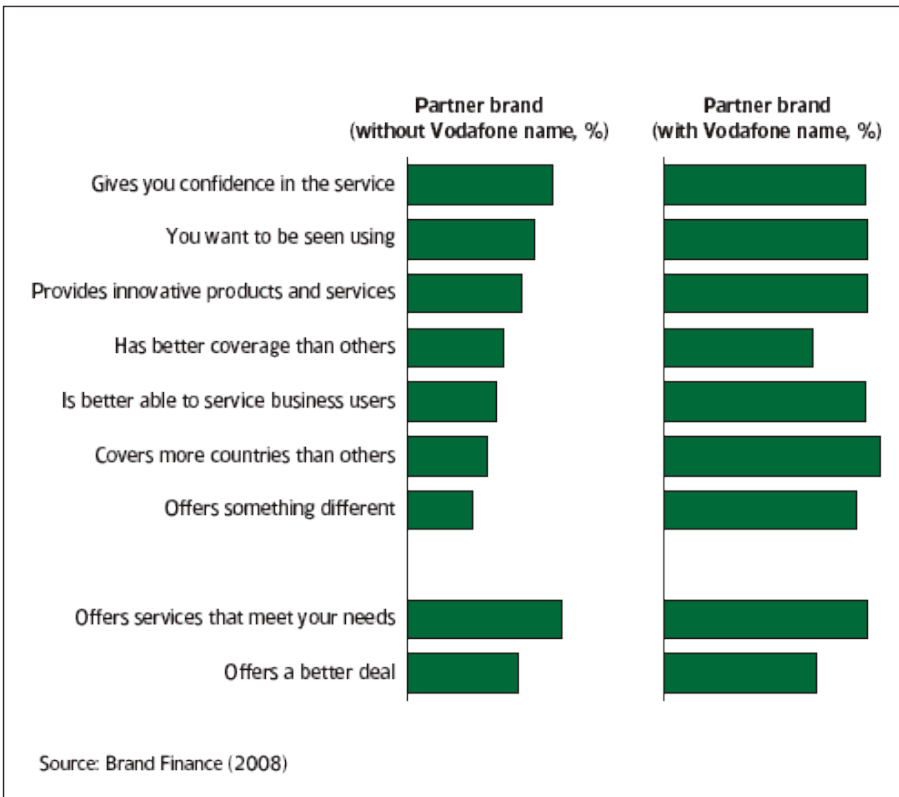


Figure 4: Vodafone: impact on partner attributes

THE COSTS AND BENEFITS OF CHANGING BRAND ATTRIBUTES

It is also possible to analyse the cost of changing a brand's performance on each macro- or micro-driver, and then to compare the uplift

value of increased demand, with the cost of delivering that improvement. Improving performance on the price driver is expensive because there is a one-to-one relationship between price cuts and the bottom line. Improved performance on other drivers may not be as costly to deliver, and brand managers need to understand this relationship as market conditions change.

For example, in recent years, many food companies have adopted fair trade, Rainforest Alliance, organic Soil Association, Carbon Trust or similar endorsements to strengthen conduct brand equity attributes, which drive consumer preference. This is generally inexpensive and, some might argue, rather cynical. But it has worked to date. Many of the certification marks have been shown to increase volume or demand and to create a price premium for minimal investment, though whether they will continue to do so in the current market is a moot point.

Tracking how consumer demand drivers change is the best way of finessing brand positioning from time to time, to maximise market share. It is by no means easy because each consumer's attribute utilities vary according to time of day or season of year, life stage, point in the economic cycle, disposable wealth profile, changing product alternatives, whether purchase is for own consumption, motive for purchase, place of consumption, peer pressure, prevailing social conventions, external events etc. The utilities attached to individual attributes are never fixed for individuals or consumer segments. We measure them in aggregate at points in time in order to predict demand. High-quality research is a must and brand managers have to fight the tendency to cut quantitative market research budgets in recession.

CHANGING CONSUMER NEEDS

The fact is that in recessions, there is often a sea change in the psychology of consumers that needs to be understood. Consumers' changing position on Maslow's hierarchy of needs directly affects brand strategy. Consumer needs move back down the pyramid during recessions.

In the last year, Wal-Mart has been transformed from an anti-hero of the consumer lobby to being the people's champion. Its revenues have grown rapidly as consumers have shown their loyalty through their wallets. Walmart's revenues and profits have grown rapidly. Its market capitalisation has increased from \$200 billion to \$270 billion in a year. Its brand has increased in value from \$39.0 billion to \$40.6 billion in a year, overtaking Coca-Cola to be the world's most valuable brand (Brand-Finance500, 2009). McDonald's and other everyday brands have followed the same pattern.

Meanwhile, brands like Louis Vuitton, BMW and L'Oréal have gone into reverse as consumers opt for function over image. Duchy Originals, an archetypal self-actualisation brand, has suffered. Its range was recently cut and prices reduced as consumers returned to basics. Innocent has suffered for the same reason and recently took the Coca-Cola shilling, to cut costs and go mass market.

Premium brands are not going to disappear overnight, but brand managers need to flex the drivers of demand to focus on consumers' changing needs. Strong brand leadership is needed to achieve what may require significant changes in brand strategy.

USING DEMAND DRIVERS ANALYSIS IN THE RESIDENTIAL ENERGY MARKET

In the current market environment it is important for energy brands to understand the relative importance of demand drivers and what they each cost to change. Basic commodity prices are important but should residential energy marketing strategies and budgets focus on improved service, customer information or image advertising?

Figure 5 illustrates the use of quantitative research to identify the relative importance of different macro and micro drivers on demand in the residential energy market.

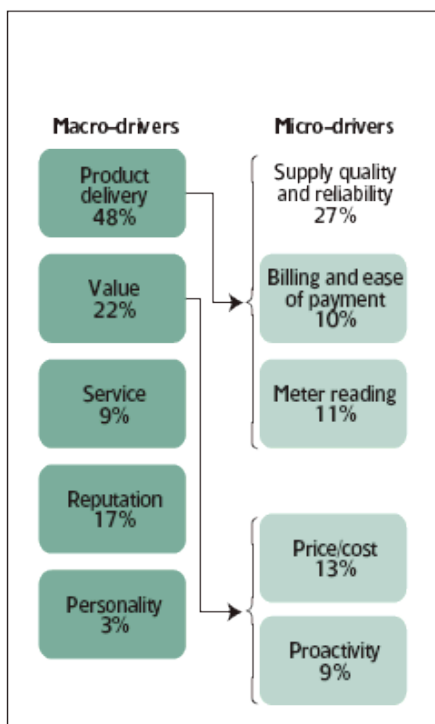


Figure 5: Driver importance – total market (energy)

Residential energy customers are driven primarily by functional drivers, above all supply quality and reliability and price. Billing and ease of payment, meter reading and proactivity (on cost) are of equal importance. Energy brands need to ensure that they are perceived as proactive in helping customers reduce energy bills in the face of rising prices. This is an area of high importance to customers, which can be influenced regardless of actual price increases.

Once brand managers have identified which attributes have the strongest correlation with brand preference, and changes in acquisition and lapse, it is possible to compare the cost of changing those attributes with the net present value of the customers saved or won for the brand.

STRONG BRAND LEADERSHIP

Some have argued that, in recession, branding is the last thing CEOs should be wasting their time on. However, branding is far more important now than it has ever been, precisely because it is about much more than logos and marketing communications. It is about having a unique personality, a point of view and a 'positioning' in the hearts and minds of consumers – which appeals in current depressed conditions.

Strong brands must have clear guiding principles, values, behaviour and culture, which they consistently maintain. Apple, BBC, Body Shop, Cooperative and Virgin are all brands that display these characteristics. They all stand for something genuine. As a result they are liked, respected and trusted by stakeholders.

Take Virgin. In 1968, Richard Branson, the idealistic college dropout, developed an enduring brand promise. In his own words:

'The Virgin brand promise is based on five key factors: value for money, quality, reliability, innovation and an indefinable, but nonetheless palpable, sense of fun.'

'At Virgin, we know what the brand name means, and when we put our brand name on something, we're making a promise. It's a promise we've always kept and always will. It's harder work keeping promises than making them, but there is no secret formula. Virgin sticks to its principles and keeps its promises.'

Every customer who has been exposed to Virgin's 300 businesses will recognise what he means, and agree. Once Virgin Group stops delivering on its unique brand promise it will stop growing.

Virgin has a strong 'moral compass', which is as compelling today as it was 40 years ago. So strong that Branson now claims Virgin is a 'branded venture capitalist' investing its unique value system, trademarks, brand management expertise and funds only in compatible businesses. One man's vision has turned Virgin into a thriving empire through strong leadership and by sticking to its principles.

However, while the guiding principles need to remain constant, detailed delivery needs to adapt. Virgin is simplifying offers and cutting prices in many of its business lines.

With a strong CEO and a disciplined brand guardianship function brands can adapt to changing consumer needs without losing their guiding principles. Only a strong CEO with a strong brand management function has the combined authority to direct change and defend budgets.

ADAPTING TO THE NEEDS OF OTHER STAKEHOLDERS

While the most important audience for brands is consumers, it must never be forgotten that brands affect the attitude and behaviour of all stakeholder groups.

- Direct stakeholders include: consumer staff, suppliers, distributors, financiers.
- Indirect stakeholders include: communities, government, industry and professional groups, special interest groups, media.

The attitude of all stakeholders changes in recession. These groups need to be tracked and responded to as carefully as changes in consumer needs.

CONCLUSIONS

For those brands that follow these lessons recession is an opportunity not a threat. Many competitor brands will be wondering 'who moved my cheese', while well-managed brands go off to look for it.

Warren Buffet says that he only invests in companies whose management he likes, respects and trusts. He invests in strongly branded businesses like Johnson & Johnson, because he believes they understand their consumers' changing needs, respond to them and create long-term loyalty. He invests for the long term and asserts that strongly branded businesses produce the best returns. Such companies know where they are going and so do their consumers – even in recession.

A DEDICATED BRAND MANAGEMENT COMPANY

To ensure that the pressure for brand consistency can be reconciled with changing needs during recession, a strong brand guardianship function is required. The best approach is to create a dedicated brand management company that:

- defines brand vision and mission

- articulates brand behaviour and culture
- plans and executes visual identity and brand communications
- coordinates brand innovation and extension strategies
- registers, maintains and defends the brand's intellectual property
- develops design and customer service guidelines
- establishes training and quality controls
- values the brand and sets terms, conditions and royalties for its use
- manages brands licensing, joint venturing and partnerships
- exercises central control and discipline.

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From bags to riches: the success of Radley handbags

[Julian Calderara](#), [Les Binet](#) and [Sarah Carter](#)

At the end of 2007, Radley + Co, makers of distinctive handbags branded with a small Scottie dog, exchanged hands for £130m – only two years after it had been valued at £42m in its first private equity deal. Truly 'bags to riches'.

The advertising campaign was cited as a key contributor to this success. Fashion brands, until now, have been conspicuous by their absence from the IPA Effectiveness Awards. Fragmented markets, small media budgets and limited industry research data have tended to result in advertising being an 'act of faith', rather than rigorously evaluated.

But when private equity is invested in a brand to the tune of £42m, an act of faith is not good enough. This case shows that fashion advertising can have a huge financial payback, and that it can be measured rigorously. Along the way, we will discover a new kind of advertising effect, and a new method of evaluation.

HOW IT ALL BEGAN

In 1984, Lowell Harder, an Australian-born architect, opened a stall at Camden Market selling men's work-bags under the name Hidesign. Whether it was her architectural training, or something deeper in her nature, the bags were unusual; eccentric even. Her business grew, and by 1991 merged with Tula Group, (an established high-street handbag company) giving Lowell two brands to play with – Hidesign and Tula.

But, ever restless, Lowell felt that there was room for something new, colourful and surprising for women. In 1998, she launched a third brand, called Radley, and added a brightly coloured Scottie dog. The result was an immediate hit. Soon there were Scotties on every Radley bag.

In February 2006, Tula Group was acquired by Phoenix Equity Partners for £42 m.

Phoenix considered the potential of its three handbag brands: Hidesign, Tula and Radley (see Figure 1).

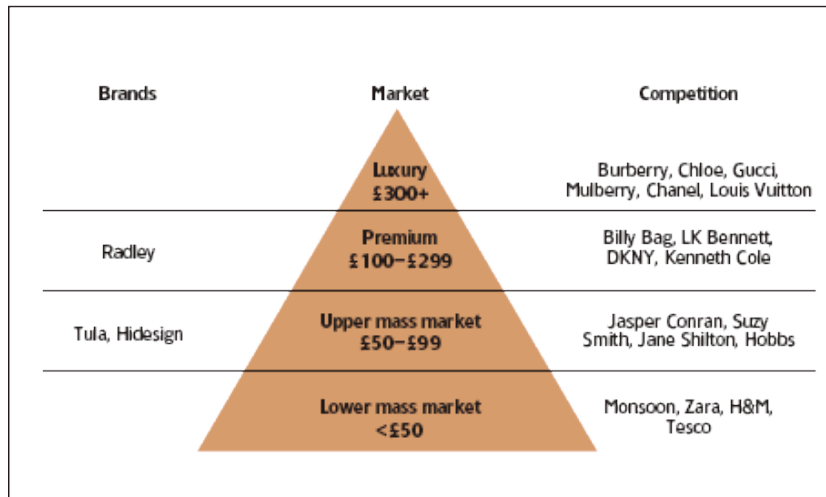


Figure 1: UK handbag market

It was clear the Radley brand had the greatest potential. It was the biggest, with sales of £23m; the most profitable, competing in the more expensive premium segment; by far the most distinctive in design terms; and already had a small, almost cultish following. The new company was renamed Radley + Co, and a bold business plan was agreed.

BUSINESS AND MARKETING OBJECTIVES FOR RADLEY BAGS

The new private equity ownership was looking for rapid and significant growth over the next three years: £57m of sales, up from £35m, and £11m profit up from £6m. The plan also called for opening Radley shops across the UK, developing profitable markets like sunglasses and footwear extension, and an overseas presence. The marketing plan was as follows:

- encourage more women to buy Radley bags

- build Radley's premium values, encouraging women to trade up to more expensive bags and increasing average pricing
- establish the brand's credentials in the industry, supporting extension into new merchandise areas and internationally.

Phoenix agreed an annual budget of £800k for its first Radley advertising campaign, and a full brand communications launch was needed for March 2007.

DEVELOPING THE ROLE FOR COMMUNICATIONS

Lowell is a maverick in the fashion industry. While she's in the industry, she doesn't necessarily like it. She believes in functionality, good design, quality and value. She dislikes selling to women by exploiting their insecurity. Why, she argues, can't a fashion company be on the side of women? She likes colour and whimsy – not serious, monochrome 'fashion'.

Her bags are truly unusual – from materials, to stitching, construction, colour and texture. The designs might seem classic – but open them up and the pink, polka-dot lining would seem to say 'this is no ordinary bag'.

Radley had built a loyal fan base of handbag devotees. Typically they were middle-aged, upmarket and from the north. They liked the quirky, colourful designs and sense of fun. For some, interest bordered on the obsessive. But other women didn't 'get' Radley: the brand was unusually polarising. It was also clear that this distinctiveness was both an opportunity and a problem.

Research confirmed that encouraging more women to buy Radley's bags was not going to be easy.

So not only did awareness of Radley bags need to be increased, but there were issues of desirability. It was functional, but not fashionable.

Radley had a particular weakness in the south east – probably because the brand here was more swamped by international and luxury competition. So, impressing fashion industry opinion formers – who were also in London and vital for the development of the brand – was a particular challenge as we would be moving into the cut and thrust of the glossy world of high fashion; the world of 'it bags'; celeb magazines chronicling Posh's latest Hermes, and daunting ad budgets.

To put this into perspective, Radley's total annual media budget of £800k was dwarfed by fashion market spend, which can top £8m in one month. In any given month of Radley spend, we could expect a share of voice of no more than 3%.

THE CREATIVE IDEA

At the end of November 2006 DDB presented the idea. It was: 'Truly Radley Deeply'.

We started with a manifesto. Lowell loved it and it has remained a touchstone at Radley ever since. This idea was unanimously endorsed by Radley's management.

It went on to be used for briefing the new city owners, staff, the PR agency and the design company.

This was the brand's point of view: but what about the ads? With our tiny budget we knew we had to be bold and different. The cliché of handbag industry ads is moody-looking model + product + big logo, but Lowell decided to avoid showing people and focus on the bags being colourful, surprising and real vs the serious world of 'heroin chic'. The campaign idea unified the inspiration for the bag with the bag itself.

The Truly Radley Deeply idea was further brought to life by creating a journal celebrating the brand and its meaning. Numbered copies were given to all staff.

Not surprisingly, we decided to use women's glossies as the focus of the campaign; they offered us the right environment to talk to women and reached the opinion-forming fashion world.

But for Radley to have any chance of cutting through on such a small budget, we needed to be smart and take some risks: to secure front half positions in the all important women's international glossies (hard for an unknown advertiser); to create the impression we had a much bigger budget than we really did; to get the campaign noticed and talked about by the fashion press opinion formers who we needed to impress for Radley's future ambitions.

We believed that our best chance of negotiating with media buyers for these glossies would be for them to see the ads for themselves. So our media department took the unusual step of physically taking our ads round to show to magazine owners. This turned out to be an inspired move. They loved the ads. Titles originally unsure of taking Radley were converted.

We were also bold by paying more for prestigious positions in the front of magazines – usually reserved for long-term fashion house advertisers – and among major editorial sites, and running two double-page spreads in the same magazine at launch.

Easy enough for the agency to recommend. Harder for a client short on funds to justify. But Radley's management team was determined that the campaign should be launched with real impact.

Our new website was featured on all the ads, too (trulyradleydeeply.com).

THE RESULTS OF THE CAMPAIGN

Results were remarkable. Across 2007, Radley spent only £800k, including production on the new advertising (tiny in the fashion market), yet impact on the brand and business was startling. In some cases, so much so, we had to double-check results.

After only eight months, awareness of our advertising put us in the fashion handbag top five, level with Chanel, fashion's single biggest spender. Press advertising was responsible – 53% of women claimed to have seen the ads in magazines.

To increase Radley's profile, we needed to create a 'buzz' around Radley. This seemed to be happening. Visits to Radley's two websites (radley.co.uk and trulyradleydeeply.com) increased significantly from the very day that our advertising appeared. And opinion formers and the press soon got interested too. Press coverage had been fairly static, but when our ads broke, articles mentioning Radley increased, and by year end had doubled in number.

Radley became famous and desirable. When we asked women who would be their first-choice handbag designer, we saw a four-fold improvement. This was so remarkable that we had to recheck the data. Radley was now the nation's favourite handbag designer, trouncing Gucci and even Chloe – makers of the 2007 'it' bag, according to the press.

Radley had been a polarising brand. But now, something very good was happening. The number of women who felt that the brand was 'for people like me' increased, while the number disagreeing decreased. Not surprisingly, this led to strong growth in numbers of women saying they would like to buy a Radley handbag.

WE EXCEEDED ALL OUR TARGETS

With such extraordinary shifts in brand perceptions, you'd expect some pretty impressive business results. Radley's plan presumed that as value increased there would be some slowdown in volume. But volume sales of Radley handbags increased by 9% in 2007. Market share also increased to 12.5% by volume, making Radley now the brand leader; one in every eight handbags sold in Britain was now a Radley and this share growth was not explained by discounting or lowering pricing. Indeed the opposite took place. Radley was able to move its pricing up, and more women traded up to more expensive Radley bags.

Value sales therefore increased faster than volume, growing by 21% over the year before: result – Radley's contribution to company profit increased by 51%. In combination, this meant that Radley + Co would meet its three-year business objective a year earlier than planned.

Radley + Co underwent a remarkable transformation during 2007. In January, it was a small company operating out of a converted dairy in Dollis Hill. By Christmas, it was on the top floor of Greater London House and the number one player in the handbag market. Clearly this success was driven by the Radley brand. The other two brands, Tula and Hidesign, actually lost sales. The fact that Radley was advertised and grew, while the other two brands shrank, is suggestive, but not conclusive.

SHORT-TERM PAYBACK

We have estimated advertising payback in two ways: sales grew 2.4 times faster when we advertised; sales were already growing before we advertised, but as soon as the campaign started, rate of growth increased by a factor of 2.42. Given the evidence we have presented, it seems clear the main reason for this was advertising. Sales grew 2.4 times faster where our ads were concentrated. Sales in London/south-east grew 2.45 times faster than in the rest of the country. The only thing that can explain this is advertising – all other factors affected the different stores equally.

Our two methods lead to exactly the same conclusion: advertising increased the rate of growth by a factor of 2.4. From this, we can calculate immediate payback. We estimate that the advertising paid for itself 1.47 times over, giving a return on marketing investment (ROMI) of 47%.

This is an impressive payback, especially over such a short time span. But it is only part of the picture. There are several other ways in which advertising created value: women came to value the brand more and retail expansion became more feasible.

The brand became more extendible. Radley has already launched purses and luggage. Now the brand is stronger it can be extended into other categories and Radley has secured distribution abroad.

THE BIG PAYBACK – A NEW KIND OF AD EFFECT

If the market is efficient, the effects of advertising should all be reflected in the value of the company. When Phoenix bought the company in 2006, it had a three-year plan to transform the business. Our advertising helped it to achieve its targets in half that time. As a result, it was able to sell at the end of 2007.

And that's where the big payback came from. Phoenix acquired Radley + Co for £42m in February 2006. By November 2007, Exponent (another private equity group) paid £130m for it – regarded as one of the private equity deals of the year.

The value of the company had tripled, creating £88m worth of value in just 19 months. An extraordinary achievement, especially since by late 2007, the credit crisis was causing lesser deals to fail. It's instructive to examine where that value came from. Exponent's rationale for the increased valuation was based on two factors:

- it estimated that having a stronger brand doubled the potential for profit as the brand strength made those profits more secure,
- allowing it to use a higher profit multiple when calculating the company's value: to our knowledge, this advertising effect has never been properly identified or measured before.

We can use Exponent's calculations to estimate the total effect of the advertising, including the longer and broader effects. We knew that ads increased earnings by £375k in 2007. Exponent applied a multiple of ten to those earnings when valuing the company. Therefore the

ads increased the value of the company by at least £3.75m. True payback will be even greater, since advertising also helped increase the multiple from seven to ten. Since we spent only £800k, this means the campaign paid for itself 5.7 times over, giving a ROMI of 470%.

A number of conclusions arise from this story of the unlikely alliance between the worlds of high fashion and high finance:

- 'small budgets' can produce remarkably big commercial effects – even when dwarfed by much larger competitor budgets
- 'small budgets' can and should be as rigorously evaluated as large ones – even in sectors like the fashion industry, not known for rigorous communication evaluation
- in the hands of visionary management, great advertising both builds brands and directly increases the value of companies
- and we outline new evaluation learning; showing how ads have a double effect on company value – increasing profits and making those profits more secure.

A parting thought: perhaps we can all humbly learn something here from the recently much-maligned world of private equity. Free from the short-term demands of listed companies, private equity companies can, surprisingly, offer far more fertile ground in which brands can flourish securely over the long term. Far from being dismissive of brands and slashing support in the interests of short-term profit gains, Phoenix was smart enough to do the opposite, providing bold commitment and financial backing for its new brand Radley. And in turn, demanding a rigorous approach to analysing return on its investment.

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Ready for Enterprise 2.0?

[Marian Berelowitz](#)

Consider the tools that anyone with online access has at their disposal today: Wikipedia and others for collaborative authoring, Facebook for social networking, Twitter for microblogging, RSS feeds, iGoogle – the list goes on. Tools like these, the stars of what's known as Web 2.0, are, for many, an intrinsic part of daily life – at least, the part of life that does not include work. That's because many businesses have remained stuck in 1.0 mind-sets.

There is a huge gap, and it is only just starting to narrow. This technology gap is felt most keenly by the so-called 'digital natives', who have grown up immersed in 2.0 tools. Ericsson ConsumerLab estimates that a typical 21-year-old has spent a lifetime total of 3,500 hours online engaged in social networking. This employee is accustomed to being connected with his network via text message and instant message, and he expects sophisticated information and communications technology to be available to him around the clock.

This generation 'has only known the empowerment of the internet and has become accustomed to have their vote counted,' writes John Newton, chief technology officer at Alfresco (a developer of enterprise content management tools), in the *Financial Times*. 'To try and control it can only disenfranchise them. To empower them yields an optimistic workforce, with conversation between stakeholders in enlightened collaboration.'

ENTERPRISE 2.0

Enterprise 2.0 – a term coined by Harvard Business School professor Andrew McAfee – encompasses a range of tools that facilitate networking, collaborating and sharing: social networking software (think Facebook); collaborative publishing tools (think Wikipedia); blogging, micro-blogging and broadcasting tools (Twitter, podcasts, etc.); social bookmarking (Delicious) and social publishing (Digg). Enterprise 2.0 also marks a shift from desktop to web-based applications – part of a trend termed 'cloud computing', which fits the needs of today's mobile worker.

The primary benefit of Enterprise 2.0 is that it facilitates collaborating, information sharing and communicating. Like Web 2.0, Enterprise 2.0 is about group exchanges over one-way dialogue, active vs. passive participation, and making connections with people who share commonalities, be they around the corner or across the world.

The disparate tools that Enterprise 2.0 comprises help employees share and organise information, which in turn allows them to tap into collective wisdom (whether from the project team, the global organisation or partners/customers). They broaden horizons and flatten hierarchy. And they tend to be most valuable when colleagues in large organisations are spread out across offices and time zones.

A 2008 McKinsey survey of business use of Web 2.0 tools found that respondents' uses for these tools included internal recruiting, managing knowledge, training, fostering collaboration, developing products and services, improving customer service, enlisting customer participation in product development, allowing customers to interact, acquiring new customers, tapping a network of experts, lowering purchasing costs and achieving better integration with suppliers.

Amy Shuen, author of *Web 2.0: A Strategy Guide*, tells *Computerworld* that social networking and other tools give employees 'quick access to knowledge, know-how and 'know-who.' She explains: 'It's a way of leapfrogging quickly through several degrees of separation to find out who knows something on a topic that's of importance to you.' Use of 2.0 tools also expands employees' social connections and affiliations; helps them to build a brand, identity and reputation within the company; and allows them to benchmark against others.

The deskbound technologies installed by slow-moving corporate IT departments tend to make the tech-savvy millennial workers – the generation born between 1978 and 2000 – feel as though they are regressing by several technological cycles. Many are responding by adopting free tools available online, ignoring corporate IT altogether – which underscores why Enterprise 2.0 may be a priority sooner rather than later.

Indeed, demand for change is coming not just from digital natives. Today, many employees spend their free time creating or reading blogs, writing Wikipedia entries, rating YouTube videos and catching up with acquaintances on Facebook and other social networking sites. This is furthering employees' expectations of how technology should help them function.

Forrester Research observes that the rise of 'cloud computing' – working on web-rather than desktop-based applications – will push corporations toward wider adoption of 2.0 tools. Microsoft, Google, IBM and others are all competing in this space, which means costs are likely to fall, making the financial risks of implementation low. Working in the cloud represents a fundamental shift in connecting people within big organisations, notes Forrester, as employees no longer need desktops to be in the loop.

YOUR COMPANY-PEDIA

While Enterprise 2.0 can be useful in any organisation, it is especially beneficial to large, geographically dispersed enterprises where teams of employees, partners, suppliers and outsourced labour may never otherwise interact.

The wiki concept, for example, has proved a boon to pharmaceutical giant Pfizer. 'Pfizerpedia' developed in a grassroots fashion: A researcher downloaded some wiki software and launched it with the idea that it would serve as a scientific encyclopedia for staff worldwide. It rapidly took on a life of its own: 'The wiki spread through Pfizer like a virus, filling voids, connecting dots, and attaining its own form—that of a high-level road map to research going on across the company, studded with hypertext links to detailed research,' reports *Chemical & Engineering News*.

'People were using the wiki to advertise their projects, and they were using search to find out about other work at Pfizer,' its creator, Christopher Bouton, told *ON Magazine*. 'In a company this large, researchers face crucial questions: How do you prevent redundancy in research efforts and funding? How do you know what else is going on in your field? How do you share your work with others?'

A year after its launch in 2006, the wiki was getting 12,000 hits a month from 13,000 users worldwide. It was integrated with employee directories and other sources in order to facilitate people search – results show employees' basic data and also their project details, publications and seminars. Pfizerpedia also serves as a platform for document creation, allowing teams to co-develop user manuals and jointly address software bugs. In addition to the wiki, Pfizer employees also use RSS feeds to keep up with news related to their work, and the company is starting up an internal social network (informally dubbed Pfacebook).

At the US electronics chain Best Buy, 20,000 employees participate in the social network BlueShirt Nation, where people can post profiles and host forums on topics of their choosing. In the Loop Marketplace section, employees can submit ideas to Best Buy executives. One retail associate explained to *Computerworld* that the site serves as a social outlet and a place to discuss work issues, as well as an important way to let executives know what's happening on the sales floor: 'As with any big company, it's easy for the message of the customers to be lost when you don't turn your attention to the people who interact with them on a regular basis.'

Most important is that management support the initiatives and allow the open, collaborative processes to flourish.

CROWDSOURCING AND BEYOND

Brands generally view social networks as a way to strengthen brand loyalty. But social networks can do more than that, replacing focus groups and surveys to more efficiently and perhaps accurately gauge what customers want, identify trends, provide insights and shape marketing decisions. Del Monte's by-invitation-only community 'I Love My Dog' offers blogs, chat rooms, message boards, podcasts, photo- and video-sharing, groups – all the usual 2.0 tools but harnessed to provide feedback on ideas for new dog food products. Members discuss new items and product changes, weigh in on upcoming campaigns and assess product ideas.

Del Monte used the community to test an idea for a new treat for dogs; the vitamin- and mineral-enriched Snausages Breakfast Bites were developed in just six months, with little time wasted on ideas that testing might eventually reveal to be off-base with target customers. The company checked in with the community throughout the process, and its members helped to guide packaging and marketing.

BusinessWeek is using the idea of crowdsourcing in a site called Business Exchange (bx.businessweek.com) that combines elements of a wiki and a social network. 'We're good at finding great sources of information and distinguishing what's important, but we also want to harness the very significant capabilities of our community,' Stephen J. Adler, *BusinessWeek's* editor in chief, told the New York Times when the site launched last September.

The site is organised by topic – anything from the housing market to 'BlackBerry vs. iPhone' (the first topic created). What's unique is that users can not only post material to a page but also create pages, subject to editorial approval. Topic pages feature material from sources that include competing media. The social network aspect is that users have profiles, which they can make public or private; these log reading and posting activity, allowing friends and other curious parties to track members' current interests (e.g. 'What's on Donald Trump's mind today?', if he chooses to participate).

Also in September, the *Wall Street Journal* restructured its Website to add more 2.0 elements: Users can now create profile that enable others to see what they're doing on the site, post their own discussion questions and e-mail other users. The site has the potential to become a kind of business-oriented virtual water cooler, with users networking, exchanging views and sharing advice.

WHAT IT MEANS

In the McKinsey survey just 21% of the nearly 2,000 executives surveyed worldwide said they are satisfied overall with Web 2.0 tools, and 22% said they are dissatisfied. But significantly, McKinsey found that business units are more likely to be the ones driving the selection of 2.0 tools among satisfied respondents, while dissatisfied executives are more likely to say that IT departments are taking the lead. And among companies mostly satisfied with their use of Web 2.0 tools, more than half of employees are using them, compared with about a quarter of employees overall. Mostly satisfied companies also use more tactics to encourage the use of Web 2.0 tools.

Among companies satisfied with their use of Web 2.0 tools, however, about a quarter reported to McKinsey that these tools have changed interactions with customers and suppliers, as well as the way the company hires and retains talent; one-third said the tools have changed the way the organisation is structured. 'As Web 2.0 gains traction, it could transform the way companies organise and manage themselves,' McKinsey reports.

Nevertheless, without a real culture change, technology will never be a panacea for the problems that prevent knowledge from flowing freely in organisations – power differentials, lack of trust, missing incentives, unsupportive cultures, and the general 'busyness' of employees today. But businesses may not have an option. Many observers doubt that the people now entering the workforce will freely submit to the structured information environments and silo working that characterise so many companies.

The potential benefits of Enterprise 2.0 are clear: increased innovation, shorter development cycles, more engaged employees, better communication, better relationships, more agility within the organisation. The most difficult part, however, is also clear: giving up control. This will likely prove the biggest barrier to adoption.

Enterprise 2.0 will require leaders to loosen their grip, opening the doors to a range of viewpoints and maybe even dissent. It will require putting trust in stakeholders and a willingness to empower them. And it will require enough confidence in the company to make its workings

more transparent. Smart businesses will put as much focus on evolving a 2.0 culture as adopting the tools that go with it.

TEN 2.0 TERMS YOU NEED TO KNOW

1. Cloud computing – accessing technology services from the Internet (the 'cloud') rather than a personal computer or local server. It allows users to tap into the power of large networked servers and to access data and applications from anywhere. This means paying for services on a per-use basis rather than buying servers, storage and software. Google Apps is one example, but companies including IBM, Microsoft, Dell and HP are all muscling into this space.
2. Folksonomy – a combination of 'folk' and 'taxonomy' that refers to ad hoc, collaborative labeling and tagging systems. Content is categorised using keywords chosen by users rather than traditional subject indexing. Also referred to as collaborative tagging, social classification, social indexing and social tagging.
3. Mashup – a Web application that integrates information from multiple sources into one tool. The most prevalent type uses a mapping tool to add location information to data-for example, HousingMaps.com plots Craigslist housing ads on a map of the U.S. and Canada so that prospective buyers and renters can pinpoint locations for all listings.
4. Micro-blogging – blogging in the form of brief updates that can be transmitted via text message, the Web, instant message, etc. The most popular platform is three-year-old Twitter, a free service that allows members to send 'Tweets' of up to 140 characters to anyone who signs up to receive (or 'follow') them.
5. RSS – really Simple Syndication is a means of syndicating content to subscribers. A Web- or desktop-based RSS reader tracks the automatically updated RSS feeds to which a user subscribes. The feed may alert users to anything from new blog entries to news headlines to project updates.
6. SaaS – 'software as a service,' a component of cloud computing, refers to hosted applications-users access software via the Web for an ongoing fee rather than buying licensed applications. This frees the user from dealing with installation, set-up, maintenance, etc., and gives the vendor stronger intellectual property protection.
7. Social bookmarking – a platform for people to share their Web bookmarks with others and to store, organise and search those links, allowing access to them from any computer. Users classify their bookmarks with tags. The term was coined by the Yahoo-owned site Delicious, which claims 5 million-plus users and 150 million bookmarks.
8. Social networking – if you're on Facebook, MySpace, Bebo, Orkut, et al., you know what it is-and may be addicted. What most of these virtual communities have in common is that members create profiles about themselves, build networks of friends or contacts, and communicate in several ways (email, IM, the 'wall' on Facebook, etc.); many include an array of other features, such as the ability to form groups and to use forums for discussion.
9. Tag clouds – a way to illustrate the popularity of tags, showing which topics are hot (or not) on a given site. A 'cloud' comprising alphabetised tags shows the most popular ones as largest and the least as smallest; clicking on one takes the user to items associated with that tag.
10. Wiki – it's perhaps most fitting to quote Wikipedia: 'A page or collection of Web pages designed to enable anyone who accesses it to contribute or modify content, using a simplified markup language.' These multi-author databases 'involve the visitor in an ongoing process of creation and collaboration.' (The word wiki is Hawaiian for 'fast'.)

WHAT EXPERTS ARE SAYING ABOUT ENTERPRISE 2.0

These five books, all published in 2008, examine the impact of Web 2.0 tools on culture and business and provide insights on how to leverage this technology to stay ahead.

Howe, J. (2008) *Crowdsourcing: Why the Power of the Crowd Is Driving the Future of Business*. Crown Business.

Li, C. and Bernoff, J. (2008) *Groundswell: Winning in a World Transformed by Social Technologies*. Harvard Business School Press.

Prahalad, C.K. and Krishnan, M.S. (2008) *The New Age of Innovation: Driving Cocreated Value Through Global Networks*. McGraw-Hill.

Shirky, C. (2008) *Here Comes Everybody: The Power of Organizing Without Organisations*. Penguin Press.

Tapscott, D. and Williams, A.D. (2008) *Wikinomics: How Mass Collaboration Changes Everything*. Portfolio.

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From CMO to CEO: the route to the top

[Jonathan Harper](#) and [Frank Birkel](#)

With average tenure somewhere between two and three years (depending on the region) the odds are stacked against CMOs progressing into general management and then the top slot. As leaders of the marketing function they are often the first casualty when growth targets are not met. Positioned at the intersection between innovation, sales, supply chain, manufacturing and business leaders they are among the most exposed members of the executive team. What's more, CMOs rarely (if ever) get promoted to CEO in the same company. To become a CEO, a CMO must almost always make a double transition, out of their function and into a new company.

The obstacles facing CMOs with ambitions for the top job are considerable, and likely to be too great for those who are unwilling to step out of their comfort zone.

It is therefore vitally important to prepare properly by developing the right set of skills and experiences that will make the transition possible, and to understand the pressures and challenges that come with the top job.

BROADEN YOUR EXPERIENCE

Marketing is an area of vital strategic importance, and successful marketers are valued above all for their strategic perspective. But even those who have reached CMO level can sometimes find themselves isolated at one end of the business, too far from the core processes.

Successful CMOs may be perceived as experts in brand building, brand equity and consumer insight, able to mobilise an effective marketing department. But if they are understood as specialists with experience only of the marketing function, they may be overlooked as potential regional or commercial leaders capable of running a business in their own right.

A criticism of marketers was the lack of a real thirst for understanding the implications of what they are doing; One CEO said, 'This is my great frustration and I am probably more intolerant of marketing managers because of my journey. While every other function in the business is reinventing itself, marketers have a contentment that is unsustainable, relying too heavily on research as if that's some panacea. Focusing on a great campaign is not enough. The CMO should be the instigator of the debate about what can be improved, about new directions.'

LEARN WHAT YOU DON'T KNOW

Another CMO commented that the time spent on the senior leadership team had given him the opportunity to influence the broader business and learn from the CEO. 'It was a valuable step because I didn't know what I didn't know. Sitting at the top table and seeing the breadth of issues being dealt with – from finance to people to external stakeholders – gave me a useful perspective.'

It was also clear from our discussions that marketers hoping to move into the top job need to obtain exposure to international markets. Significant roles and responsibilities in several other functions – for example, being vice president of sales in a region or implementing a global project – help prepare for a general management role in the future.

Some cautioned, however, that not all global projects are equally valuable. One CEO cited implementation of a SAP project as an example: 'At the end of the project you certainly know more people in the company, you have visited more markets, but as a manager you have not added competencies crucial for a future CEO. On the other hand, there is no question that it is strategically valuable for a CMO to be part of an M&A team, or better still, to lead such a team.'

PREPARING FOR THE ROLE

When considering CEO succession, the board will often overlook the CMO in favour of those more centrally situated within the company's executive ranks. And even those who have made it to the top are quick to point out that progressing from CMO to CEO rarely occurs without a move first into general management or a spell in category management.

Understanding day-to-day operational realities helps you to appreciate the issues faced by those responsible for operations, and enables you to form a more complete picture of the business. It encourages you to think from a general manager's point of view, thereby broadening the insight you can offer to the company as a whole.

Looking beyond the marketing function and being intellectually curious about how all the pieces of a business fit together is essential. One CEO recounts how he visited several warehouses belonging to the food retailer where he was CMO: 'The distribution director told me that I was the first CMO that he'd taken around the warehouse in his 35-year career. It was a valuable experience on two counts: first, I learned things that helped me understand how I could influence the business better; and, second, it helped build my credibility.'

The legacy of the 'silo' corporate structure and the perception of marketing as a cost centre rather than an engine of growth and profitability means that board members and shareholders may feel more comfortable promoting a CFO than a former head of marketing.

Consequently, CMOs will have to work hard to demonstrate an analytical mind and an understanding of the factors that positively influence the P&L. They need to ensure that the company doesn't construe them solely as a driving creative force who is frustrated with financial and other limitations set on them.

This means that the CMO will, at some point in his career, ideally have had responsibility for P&L across brands, channels, customers and countries, almost certainly having had to search out such opportunities even if it means temporarily moving backwards.

Does this mean that CMOs are not natural contenders for CEO positions? Not necessarily. Several CEOs we spoke to see CMOs as the best candidates for CEO roles, not least because they are responsible for the positioning, differentiation and development of brands (which are increasingly valuable corporate assets) and because it is their business to understand consumers and their needs.

Also, CMOs tend to be good communicators, able to engage and motivate people inside and outside the organisation. In order to get into contention for a CEO role in the first place, the CMO will need a strong personality and the ability to use all his communication skills to persuade the executive team, the board and other stakeholders of the value that marketing brings to the organisation.

A CMO who is driving top-line growth and who exerts a strong influence over the business planning process is in an ideal position to make the leap to CEO because he or she understands what the consumer is looking for and what the company's capabilities are, and is able to bridge those two things and come up with commercially viable products.

FMCG LIKELY TO BE EASIEST

CMOs looking for a move to CEO status will find it easier to demonstrate their leadership qualities in some types of company than in others. Fast moving consumer goods (fmcg) companies, dependent on building relationships with customers and securing their loyalty, tend to place great value and expectation on the marketing team. CMOs in these organisations will be at the driving end of the business, creating demand, engineering growth, and steering business development and transformation.

CMOs in fmcg companies tend to be closer to product development and can measure response to marketing initiatives more quickly and with greater accuracy than their counterparts in other sectors. By contrast, CMOs in financial services or business-to-business sectors are less likely to be perceived as drivers of the business because the correlation between marketing and top-line growth is less clear.

Whatever the sector, it is essential that CMOs can demonstrate data-driven evidence of success in order to gain the support and respect of colleagues outside of marketing. This can be a challenge when the marketing ethos is not shared throughout the organisation, as one CEO pointed out: 'Share of market and brand equity are harder concepts for managers outside the marketing function to understand than a P&L or financial ROI.'

Perhaps the point is that, if you move into a business that is not about directly satisfying consumer needs, you will only really be able to leverage your broad-based leadership skills as opposed to your full armoury of marketing capabilities. If you demonstrate exceptional leadership and communication ability you can succeed as a CEO in a different sector, but may not use the full scope of your professional skills.

A DIFFERENT SET OF SKILLS

Some of those we spoke to stressed that, as much as you try to ready yourself for the role of CEO, there are some aspects of the job that you can never prepare for. The nature of the leadership required of the CMO could not be more different from that of a CEO, who operates at a much higher level than anyone else in the organisation and who has to work through people from all disciplines.

Rather than being hands-on, a CEO steers the course with a clear direction, getting less bogged down with the details. And though this may sound attractive, a CEO needs to be ready to make tough, even risky, decisions. This is made even more difficult by the fact that as a CEO you will have less information on which to base decisions than you were used to as a CMO – there are more variables, more unknowns, so good judgement is critical.

What's more, as CEO, people will treat you differently. They become highly selective of the information they give you. Consequently, you have to learn to read between the lines, ask difficult questions and ask the right questions. One CEO explained: 'There is more leading, less doing. It's as simple as that. It took me six months or so to really appreciate that when I asked for something people dropped everything and did it. This caused chaos! My CMO would repeatedly plead with me not to set so many hares running in my well-meaning enthusiasm. It was good feedback.'

For all the differences between the CEO's role and that of the CMO, one of the areas in which the CMO is often strongest – the ability to influence and communicate the marketing message throughout the organisation – is a prerequisite for the CEO. However, one recently appointed CEO warned: 'The biggest mistake when moving into general management from marketing is the temptation to see the job as "beyond marketing" or to shed the marketing mindset. Make no mistake – the CEO ought to be the chief marketer.'

As CEO you will have to learn a new degree of objectivity, consciously listening to viewpoints from different parts of the business, from IT to manufacturing, from HR to operations. This is made easier the more exposure you have had to other functional areas during your career: 'I had to tell myself to stop playing brand manager, to take off all my hats. When you become CEO you see connections between functions that you were not in a position to see before. You can only win by playing together.'

IS IT RIGHT FOR YOU?

Nearly all the CEOs we spoke to said they had always taken a genuine intellectual interest in broader business issues and enjoyed being involved in different things, seeking out opportunities that would enhance their experience and skill set.

If you are having to convince yourself to be involved in different aspects of company management as a necessary evil in order to rise to

the top, then the move to CEO may not be right for you. As one CEO remarked: 'If you don't genuinely love getting out there with customers, and you're not genuinely interested in how the factory works – and you don't really care about your working capital situation and how the P&L is adding up – then don't bother to apply for the top job.'

Aside from the obvious weight of responsibility and pressures that come with running a company and sitting on the board, the CEO must get used to the fact that it is lonely at the top. When you become CEO, a certain distance inevitably opens up between you and your reports, in contrast to the camaraderie you may have enjoyed as a functional head. This is not an easy adjustment to make, which is why so many CEOs who have made the transition retain the services of a personal coach or mentor in whom they can confide when the going gets tough.

SUMMARY

As the role of marketing continues to evolve, many CMOs find themselves assuming greater leadership and responsibility for growth, while exerting more influence over strategy. With the increasing number of CEO positions being filled by former CMOs, those in marketing should be encouraged that there is a clear route to the top, although it is not an easy one to take and often requires moving outside the current organisation.

Careful thought needs to go into preparing for the transition over a significant period of time. The CEOs we spoke to were united in the view that CMOs wishing to become CEOs must grasp every opportunity to step out of their comfort zone and expose themselves to situations and challenges that will help prepare them for a corporate leadership role.

TEN WAYS TO PREPARE FOR A CEO ROLE

- Take on a general management role in an emerging market.
- Broaden your skill set at every opportunity.
- Gain experience in at least one non-marketing role.
- Get involved in mission-critical, non-marketing projects as you can.
- Demonstrate your credibility and track record as commercial leader.
- Develop close working relationships with other functions,
- Work with the CFO to value the company's brand assets.
- Hone your communication skills.
- Learn to make the tough decisions.
- Find a mentor who is already a CEO or in a general management position.

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The dangers of common sense

[Les Binet](#)

Recently, a planner I know asked me a question: How does advertising actually work? That's a very good question, and it's not one you hear people asking much these days. Some 20 years ago, there was a lot more debate about how advertising works. These days, there seems to be much more of a consensus about the basic principles of communication, and the focus has shifted to understanding the role of the various new channels that have emerged.

But do we really understand the basic principles of how advertising works? Evidence from the IPA dataBANK (Binet and Field, 2007) suggests that there are some fundamental flaws in the assumptions that most marketing people work by.

Two years ago, Peter Field and I began a major research project to try to find out how advertising really works. We analysed the raw data from nearly 1,000 IPA cases, to find out what actually drives business success. Not what wins awards, but what drives sales and profit.

We started off by looking at how people usually plan and evaluate advertising. Which strategies and metrics are most commonly used? From this, we can get an idea of how people think advertising works – what I'll call the 'common sense' model (Figure 1).

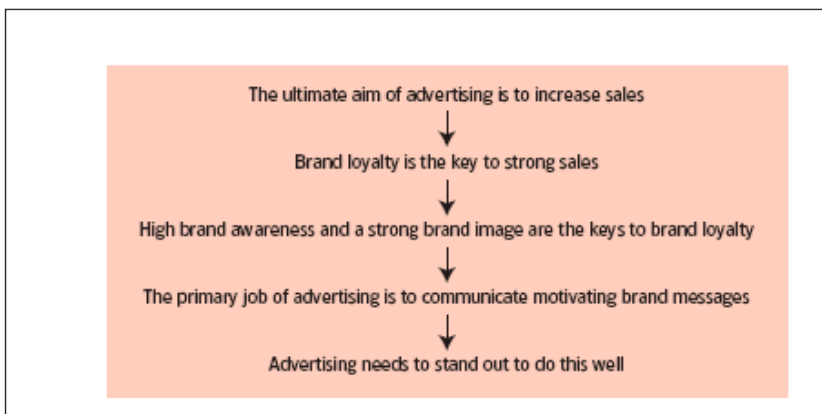


Figure 1: The common sense model of advertising

Then we looked at what actually works – the strategies and metrics that correlate with real business success. We were shocked to discover that what most marketing people do and what actually works are really quite different. The most common strategies actually turn out to be the least effective. It seems that every one of the assumptions in the common sense model is flawed in some way. Let's look at them one by one.

ASSUMPTION 1: ADVERTISING WORKS BY INCREASING SALES

Most marketing people assume that the ultimate aim of advertising is to increase sales, at least for commercial firms. But the IPA dataBANK suggests that advertising is best used in quite a different way.

Figure 2 shows the relative profitability of focusing on different business objectives. As you can see, campaigns that focus on sales don't do particularly well – only 20% of them yield a decent payback.

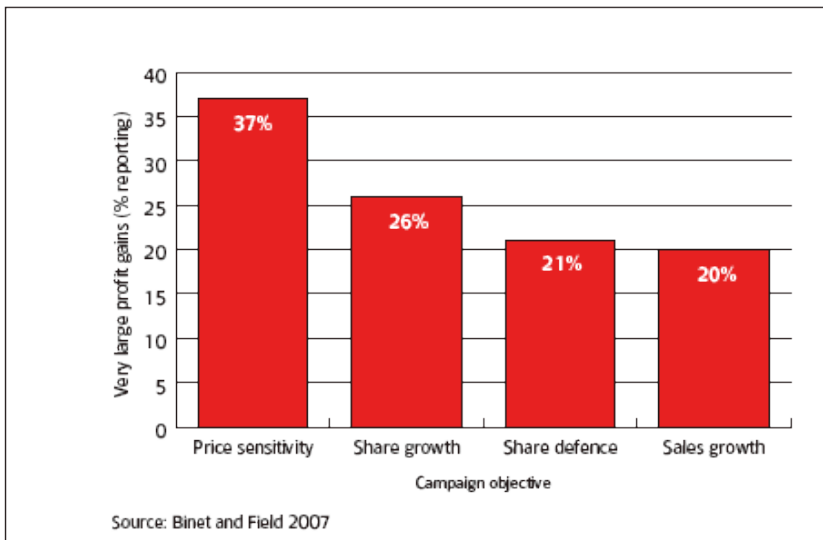


Figure 2: Price is the key, not volume

Campaigns that focus on market share do a bit better, but the really effective campaigns focus on something completely different: price. The really big payback comes from reducing price sensitivity, not from increasing volume.

In fact, using ads to firm up prices is almost twice as profitable as trying to increase sales. Yet hardly anyone seems to understand this: only 4% of the campaigns we looked at focused on price.

ASSUMPTION 2: ADVERTISING WORKS BY INCREASING BRAND LOYALTY

There are two ways to grow a brand: either you increase penetration, or you increase loyalty. Back in the 1980s, management consultants argued, on simple accounting grounds, that increasing brand loyalty must be more profitable than increasing penetration, and this theory seems to have been very influential. According to our data, loyalty strategies now outnumber penetration strategies by about two to one.

But our data shows that penetration campaigns are almost three times as effective as loyalty campaigns (Figure 3). And on the rare occasions when so-called 'loyalty' campaigns do work, they nearly always work by increasing penetration, not loyalty. As Ehrenberg proved many years ago, brand loyalty hardly ever changes (Ehrenberg, 2005). It's just not something that responds to advertising.

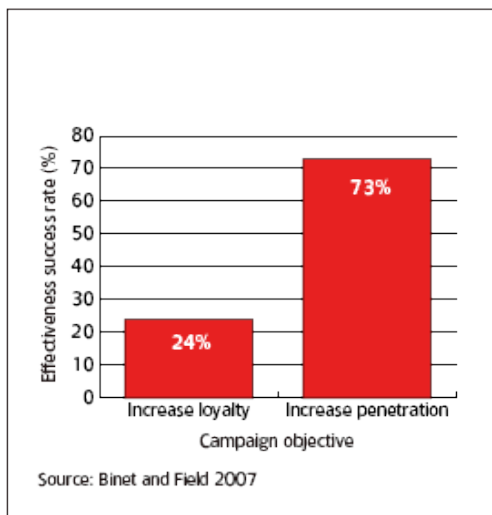


Figure 3: Loyalty campaigns under-perform

Of course, there was nothing wrong with the management consultants' financial logic. If you could increase brand loyalty, then you would indeed make a lot of money. But that's a bit like saying that you would make a lot of money if you could turn lead into gold. It's true, but it's not a very practical strategy.

ASSUMPTION 3: AWARENESS AND IMAGE ARE THE KEYS TO STRONG BRANDS

Most people seem to think that brand awareness and image are the keys to strong brands. In fact, these are the most common KPIs of all. But, once again, most people are wrong.

Awareness and image do correlate with business success to some extent, but the correlation is pretty weak. In fact, of the various brand measures available, these two turn out to be the worst predictors of effectiveness.

So, what should brands be aiming for then? The answer is fame.

But, fame means more than just awareness. It's not enough for people to just know your brand. You want people to be actively thinking about your brand, and, crucially, talking about it. Really famous brands, like Apple or Nike, become part of the cultural lexicon, the web of symbols that we use to define ourselves and our world.

Our data show that fame is the real key to business success, and in particular, word of mouth seems to be crucial. As Figure 4 shows, campaigns that get people talking outperform on every single business metric.

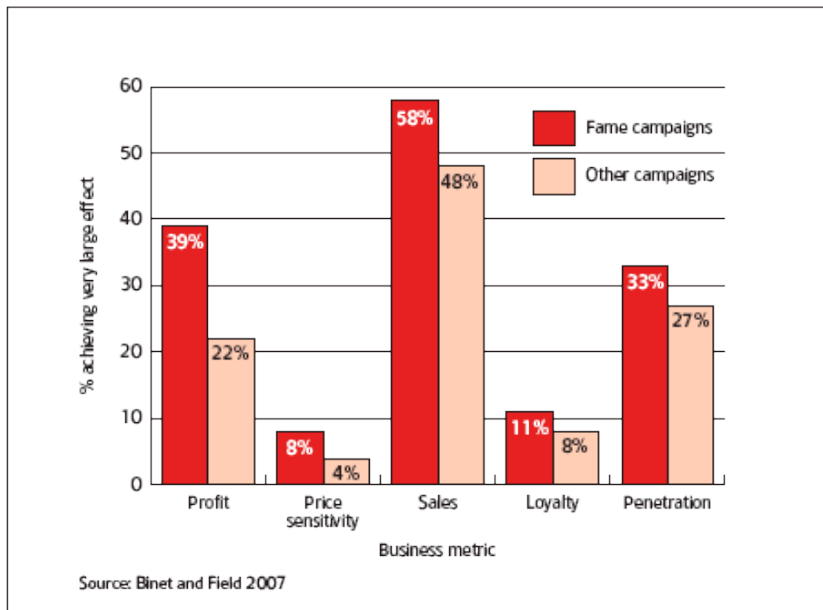


Figure 4: Fame campaigns outperform on every metric

Fame campaigns are much the most profitable – almost twice as profitable as other forms of advertising. And one reason for that is that they're particularly good at reducing price sensitivity.

It seems we're willing to pay much more for the brands that everyone's talking about.

ASSUMPTION 4: ADVERTISING WORKS BY COMMUNICATING BRAND MESSAGES

Next we come to the most important issue of all: how do you actually influence people with advertising? And I think this may be where we've been making our biggest mistake.

Advertising has the power to change how we think, and it has the power to change how we feel, and most advertising tries to do both. But most advertising folk believe that the message is the important bit. Emotions are just the means by which you get the message across.

However, the IPA data suggest that the most effective campaigns turn out to be those that don't contain much of a message at all. Ads that simply aim to generate pure emotion turn out to be twice as profitable as ads that use emotions to support a rational proposition (Figure 5). And the more emotions dominate over reason, the more effective the advertising becomes.

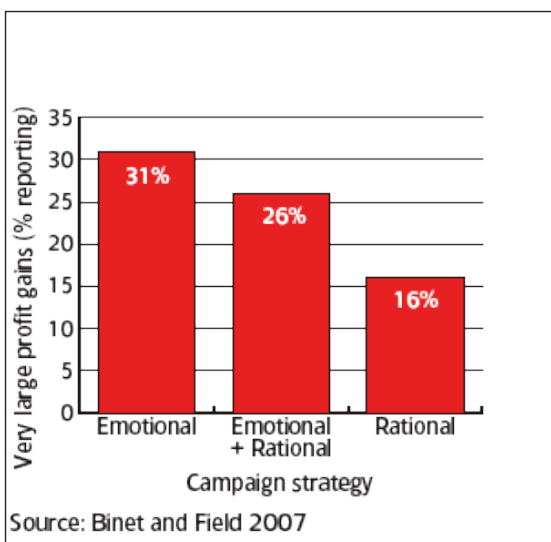


Figure 5: Pure emotion works better than communication

It's not just that emotions are better at getting messages across – it looks as if emotions themselves are the real message. As Feldwick and Heath (2007) have argued, it looks as if the whole idea that advertising is a medium for communicating ideas may be flawed.

A good example of emotional advertising is the Cadbury's 'Gorilla' ad from 2007. It's a remarkable ad, but it doesn't actually say anything. And it's no coincidence that 'Gorilla' was the most talked about ad of 2007. Our research shows that emotional advertising is particularly good at getting people talking. And, as we've already seen, that's the key to big profits.

ASSUMPTION 5: ADVERTISING NEEDS TO STAND OUT TO WORK WELL

It seems obvious that, no matter how ads work, they need to grab people's attention. For this reason, standout metrics (usually some measure of ad awareness) are the commonest measures of advertising efficiency.

Our data show that there is indeed a correlation between standout and effectiveness, but that it's fairly weak. In fact, of the various advertising measures available, standout seems to be the worst predictor of effectiveness.

According to our data, what matters most is not how well the ad stands out, or communicates, or persuades, but how much people like it. This is consistent with research conducted by the Advertising Research Foundation in the early 1990s (Eagleson and Rossiter, 1994). The ARF found that pre-testing methodologies that were based on liking were better at predicting sales results than those based on other metrics.

So it seems that creating the right feeling is far more important than getting people's conscious attention.

Everything You Believe is Wrong

So the common sense model of advertising turns out to be fundamentally flawed. And that matters, because it leads to money being wasted.

For instance, think about pre-testing. All pre-testing systems are based on some model of how advertising works, usually something similar to the common sense model. If that model is wrong, then pre-testing will give misleading results.

So does pre-testing really improve effectiveness? Perhaps not. Our data show that IPA cases that used pre-testing data reported much smaller business effects than those that didn't (Figure 6). Maybe pre-testing is actually making ads less effective, not more. We can't prove that – there are other ways of interpreting the finding – but the data do raise some big doubts.

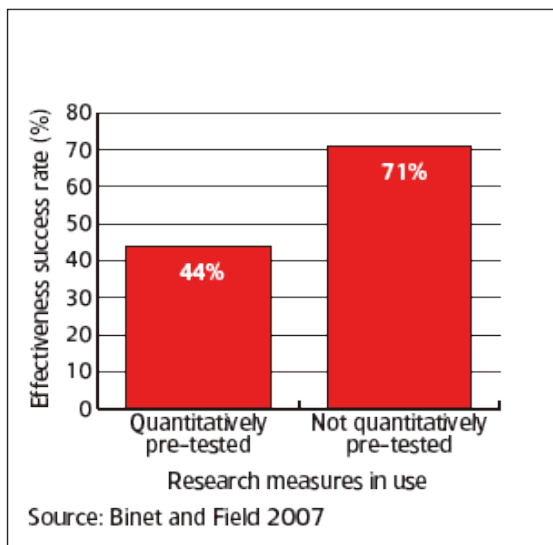


Figure 6: Does pre-testing reduce effectiveness?

So it looks like a lot of our assumptions about how ads work are flawed, and a lot of money is probably being wasted as a result. How did we get it so wrong? I believe that, as an industry, we are too easily seduced by clever theories, and not interested enough in testing them. That's why the marketing community loved the management consultants' theories about brand loyalty, and that's why they largely ignored Ehrenberg's data, which disproved them.

Advertising is a creative art, and it needs big creative thinking. But that thinking needs to be balanced with the discipline of measurement and analysis. That's what Stanley Pollitt and Stephen King envisaged when they invented account planning 40 years ago, but I fear that we're losing sight of that. We need to return to that vision if advertising is to keep generating profit in these troubled times.

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Marketing for next to nothing

[Julian Saunders](#)

The words 'free' and 'open' are fundamental values that were built in to the DNA of the World Wide Web by its inventor Sir Tim Berners-Lee. Today we are all reaping the benefits. The web is enabled by the internet, whose architecture makes it 'the surprise generating machine' (John Naughton, Professor of the Public Understanding of Technology at the Open University).

Bright ideas spread fast: it is a borderless realm. A student in Boston can create new software and within months it helps us to conduct relationships differently all over the world.

Web services now enable us to publish, show films, express opinions, brainstorm ideas, research and sell all for nothing, or very little cost.

Their creators have made these services free to win widespread usage in the expectation of 'monetizing' them from future advertising revenue. Where Google has led others followed.

THE WEB AND MARKETING

At first the web was seen as mainly a sales response medium – it still is today thanks to Google. But now all marketing functions have migrated to the web. Anyone who is responsible for the creation of brands and stewardship of reputations can be made or undone by it.

Social media, which we are only just beginning to understand, have supercharged the 'for free' revolution engendered by the web. They are relevant to marketing functions in the widest sense. You can listen to customers, spot trends, research ideas, correct false rumours, anticipate bad news, consult interested parties, identify weaknesses, build relationships, recruit staff, run collaborative teams, announce events, explain new products and services.

That list is no doubt incomplete. No wonder it is such a hot topic.

WHO WILL BENEFIT MOST?

It is not easy to predict, except to say that they will be many and varied and there will be surprises along the way. Top of the list:

1. Entrepreneurs without Boundaries

Small businesses and entrepreneurs are in the vanguard of the 'for free' marketing revolution because they naturally look outside for resources. Designers and user-experience folk are making web services better and easier to use on an almost weekly basis. Consider this short list of low-cost or free marketing activities.

- Create an interesting website. Decent-looking websites and/or profiles on social media sites can now be quickly made by using pre-formatted designs on easy-to-populate templates. Looking great is less important nowadays than having an interesting offer or story.
- Get higher up in the search rankings. The rudiments of search engine optimisation are easily understood even if 'advanced SEO' is something of a dark art. The Joined Up Company hosts over 50 films on YouTube and links them to its site. Google rewards all those 'links' in the search rankings.
- Sell to global niche markets. MySpace is now a showcase for all kinds of 'culturpreneurs', such as publishers, musicians, filmmakers and designers. Like Paul Griffiths. Aged just 20 he receives 500 friend requests a day and has sold over 10,000 of his Babycakes T-shirts globally. His mother and friends do the packing, dispatching and tracking.
- Enjoy positive word of mouth. At the heart of social media is the experience of being rated by others (for quality of service, probity and the imaginativeness of your marketing). Good ratings breed popularity-if a video on YouTube is highly rated it will attract more viewers. It will be sent as a link to friends and/or posted as a link on social media sites. Anyone with a brilliant new product or service or offer can get off to a flying start by sampling it to interested individuals who will blog, review, rate and pass on the news through their networks.
- Outsource your NPD. P&G has, under its Connect and Develop programme, but you can do it by just setting up a group on Ning. The web also offers a daily diet of ideas through RSS feeds, blogs and relevant newsletters.
- Need to check if your customers are truly satisfied? A short personal email normally suffices to flush out any problems.

Most of us, by now, will already be wise to this last example, as email is now second nature. It follows that, as we become more

experienced in things like search and social media, opportunities will abound.

2. Big Organisations can Release the Energy of Their Employees

Three years ago Microsoft decided to let its staff blog and even make critical remarks about their own company. It punctured the walls of the monolith to reveal an obvious truth – Microsoft is full of people who care and want to do the right thing.

Extroverts add sparkle and a human face to their company, like Mark Price, MD of Waitrose and self-styled 'chubby grocer', who declared that he would be a more streamlined shopkeeper in three months. He blogged about it, got thinner and stopped blogging – but surely there is another mission he could take on?

Big organisations need to recruit people who are tuned in to the possibilities of the internet and to create a culture in which they feel liberated to express themselves. The accountancy firm Deloitte is paying employees a bonus if they recruit staff by using their Facebook accounts – cheaper than a recruitment agency and a good way of building a company of like-minded souls.

3. Organisations with Strong Ethics

Organisations now have to pay more attention to stakeholders, who can be both highly local (what is my nearest Sainsbury's doing to support local groups?) and national (how is the company weaning us off plastic bags?). Social media fit the bill, as they are local, national and international. The scrutiny of social media also keeps companies honest and exposes the charlatans. They are therefore an emerging source of that most powerful form of advertising – the good opinion of others. Doing the right thing now has more rewards than burnishing your reputation in a 'glossy TV ad'.

4. The Sales Promotion Industry

Imaginative promotions that people can participate in or pass on, can now do more than stimulate sales. They can also inject a sense of joy, flair and imagination into a brand.

For Air New Zealand's 'Grabaplane', all people had to do was fill an online plane-seating plan with 40 friends in order to the win use of the plane to fly anywhere in New Zealand. Social networks buzzed as young New Zealanders competed to win, and the media picked up on the excitement and covered it as a story. Films of four great examples are posted here: www.youtube.com/joinedupcompany

5. Brands with a Strong Point of View

These are often (but not always) challenger brands, which break the mold and champion a better way. All highly defined worldviews have a back-story including such classic elements as genesis, early opposition, tension, a damascene moment, drama, triumph, hubris and reinvention. Stories have always had a viral quality and the web accelerates their speed of transmission.

Successful challenger brands tend to have leaders who take easily to the free publicity opportunities of the web. Just search Michael O'Leary on YouTube. He's spoofed us all with the idea that he will charge you for using the toilets on Ryanair flights. Or has he?

The internet and our news-hungry media are now twins, joined at the hip, with the media being the needier twin as understaffed newsrooms feed off blogs and YouTube hits.

6. Bad People

As John Naughton has pointed out, there are nasty surprises lurking in the machine – like phishing, cyber crime, viruses and cyber terrorism. Pessimists and eschatologists will continue to find plenty of fuel for their perspective and predictions of doom.

7. Governments that are Truly Open

Open consultation in the making of policy (enabled by blogs and wikis) seeds and germinates groups of supporters and advocates who can be a force in its dissemination. Policy in which people have truly been consulted stands a better chance of acceptance.

8. Geeks

Even as I write this, some are dreaming of being the next Sergei Brin (Google) or Mark Zuckerberg (Facebook). Others are setting their sights a little lower and, for example, creating things like iPhone apps that mean they can give up the day job.

RETURN ON IDEAS

Of course, ours is not really a 'for free' world, but one with dramatically lower barriers to entry. Investment is shifting to a different place, and arguably the right place – the idea and its design. Talent, imagination, invention and creativity are unbounded. Returns increasingly will go to those with the best ideas rather than just the biggest marketing investment.

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Business in Korea: a two-speed system that will get them a long way

[Bruce Haines](#)

In Korea, 'bali, bali' isn't a reference to a tropical island so good they named it twice – it's a much used expression meaning 'quickly, quickly'. On first impressions, you'd be forgiven for thinking that the whole country runs on that basis. The pace of life in Seoul is frantic, meals are eaten in about ten minutes flat, anything you buy is delivered either that day or the next and, just as you've got used to a particular shop or restaurant being in a particular spot, the next time you pass it will have changed owner, closed, been made over and re-opened as a completely different business. It's not called 'Dynamic Korea' for nothing.

SLOWER THAN IT SEEMS

But after a while you begin to realise that for all the surface buzz there's a slower, more considered, pace that underpins business here. One that I believe will protect the country from the worst of the global downturn. One that, when recovery comes, will take Korea further ahead of many other economies. When I arrived here and, on the odd occasion, voiced my frustration with what I saw as an overly cautious approach, I was quietly advised to be patient. In time, frustration turned into admiration as I realised that I was experiencing the reverse of the short-termism that I'd long complained of in British business. Sure, quarterly results are reported and avidly scrutinised but businesses (and brands) are simply not run in order to impress analysts four times a year.

During the current downturn, company managements here have shown a cool determination, sangfroid and an upper lip that would out-stiff the stiffest British model. For Koreans this is a bad year in the middle of a lot of good ones and, just as they came through the Asian financial crisis of 1997, there is an absolute assumption and confidence that they will come through this one – and end up in a better place. The famous Asian long game is alive and well in this, the world's 13th largest economy.

Thirteen might be a lucky number for Korea but ten is luckier and represents the country's position on the list of exporting economies. 'Export or die' was the cry long before 1997 and the national current account continues to achieve record surpluses albeit through a reduction in imports – but if you're going to have a problem, it's not a bad one to have. How this dirt-poor country rose from the ashes of a devastating war to become one of the richest countries in Asia has been well documented but it's only by living here that one can begin to appreciate the collective drive to improve, to succeed and to take on the rest of the world on its own terms.

HIGH HOPES

Seoul used to be considered a hardship post for ex-pats. It was mono-cultural and difficult to work in without learning the fiendishly difficult language. Not any more. This is a capital that has real ambitions to be a world city. Fantastic new architecture is appearing everywhere. The arts scene is still riding the Korean Wave. Seoul is now preparing to be World Design Capital in 2010 and Zaha Hadid has designed a \$100,000,000 new Design Park bang in the middle of downtown. The English language is seen everywhere, from shop fronts to road signs, and the drive to learn the language is palpable. Every child, regardless of background, grows up with the knowledge drummed into him or her that without a working knowledge of the language there will be no bright future. The school system here may lack the creative freedom of the West but it's turning out brilliant mathematicians, engineers and designers. Education, education, education is the mantra throughout the early years, only to be replaced with training, training, training once in the work-place.

Commitment to continuous training and development is total. No manager or client complains when a member of the team goes off on a residential (meaning no access to the outside world) training course. It is expected, accepted and budgeted for.

During our executive committee discussions on cutting costs due to the current crisis, not once has trimming the training budget even been mentioned.

WELL-TRAINED EXPERTS

A key indicator of how serious a Korean company takes training is our agency's Global Expert Program – I apologise for the American spelling but that's how it is and you can't have everything. Here's how it works. Since 1992, we have sent bright young people to countries where we might, one day, be interested in establishing an office.

In essence, it works like a very well funded gap year. Managers are trained for two weeks before departure on the destination country's etiquette, followed by a three-month intensive language course – he or she will already be fluent in English.

During the year abroad, managers will travel widely, live as part of the local community, establish a local network and devote time to a research study of his or her choosing.

On returning to Korea, a report is delivered to HQ management and the manager assigned to new duties within the agency.

The point here is that well before we had offices in Brazil, Russia, India or China – before the term 'BRIC' was even coined – we, like other Korean companies, were sending out our brightest in preparation for the day when a presence would be needed in those and other markets and, when the moment came, a knowledgeable manager was available to be dispatched. And because the investment made in

that manager was repaid by loyalty to the company, the manager was still with us to be dispatched. Pretty simple, very effective.

I was hired to bring so-called global best practice to a very Korean company and I hope that in the year I've been here I've managed to do a little of that. In return I've learnt that 'global' – for which read 'western' – may have more than a little to learn from Korea. A two-speed system takes a little getting used to but, after careful reflection, I rather recommend it.

Now, let's get out of this downturn, bali, bali!

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